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IN THE

Supreme Court of the United States

OCTOBER TERM, 1944.

No. 1194

JOHN C. BLACK,

Petitioner,

vs.

RICHFIELD OIL CORPORATION,

Respondent.

PETITION FOR REVIEW ON WRIT OF CERTIORARI OF A DECISION OF THE NINTH CIRCUIT COURT OF APPEALS.

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PETITION FOR REVIEW ON WRIT OF CERTIORARI OF A DECISION OF THE NINTH CIRCUIT COURT OF APPEALS.

To the Honorable the Chief Justice and the Associate Justices of the Supreme Court of the United States:

Petitioner, JOHN C. BLACK, appellant in the court below, respectfully prays that a Writ of Certiorari issue to review the judgment entered in the above entitled cause on December 12, 1944, by the Honorable Circuit Court of Appeals for the Ninth Circuit, and as to which Judge Albert Lee Stephens filed his dissent. A rehearing was denied on January 29, 1945, Judge Stephens dissenting. In support of this petition, your petitioner respectfully represents:

Jurisdiction.

The jurisdiction of this Court is invoked under Section 240 of the Judicial Code, as amended by the Act of February 13, 1925 (28 U. S. C. A., Sec. 347 (a)).

Summary of Matters Involved.

This is an action for declaratory relief, wherein your petitioner seeks: (1) a *declaration* of the rights and obligations of himself as licensor, and of respondent as successor in interest of Pan American Petroleum Company as licensee, under a contract of license executed as of September 15, 1925; (2) *a reformation,* if necessary, of the writing executed in evidence of said grant; and (3) *an accounting* of royalties unpaid for the period subsequent to August 19, 1938 [Comp. Tr. p. 2].

On March 12, 1937 respondent, *as a rehabilitated debtor,* succeeded to the estate of the licensee under this grant, by means of a reorganization of the original licensee—Pan American Petroleum Company, under Section 77-B of the National Bankruptcy Act [Ex. 48, p. 157]. In these proceedings respondent expressly assumed and agreed to perform this *executory* contract. [Stip., Ex. No. 11, p. 4, Art. 11, pars. 1 and 4].

On September 15, 1925, Black was, and since January 1, 1920, had been, employed in the service of Pan American Petroleum and Transport Company [Pltf. Ex. 6, Tr. p. 1077], and of its wholly owned subsidiary—said Pan American Petroleum Company, as chief refinery superintendent, and as such he had charge of the construction and operation of important refineries situated at Tampico, Mexico; Destrehan, Louisiana, and Watson, California. Black continued in the employment of said Pan American

Petroleum Company until respondent succeeded to this license, and he then entered, and remained for about four months, in the employ of this respondent at Watson, California.

On September 15, 1925 your petitioner, Black, was the inventor and owner of multiple important inventions useful in petroleum refinery operations. These composed two groups: a *cracking* group containing about 140 inventions, both process and apparatus, and a *non-cracking* group containing about 75 inventions.

These *cracking* inventions included Black's important discovery that chrome alloy was resistant to the destructive action of sulphur or sulphur compounds in petroleum under cracking conditions; that its use in a cracking container would substantially eliminate the serious hazards to life and property then incident to petroleum cracking operations; would permit the use of higher temperatures and pressures, and would substantially improve the quantity and quality of the gasoline produced (*Gasoline Products Co. v. Coe*, 87 Fed. (2d) 550.) This discovery was of such fundamental importance that its use has become standard practice in the petroleum cracking industry under licenses granted under Black's patents.

Following this discovery and conception, Black filed two applications for letters patent in respect thereof. The first application [Tr. p. 1175] was filed October 25, 1922, and bears serial No. 596,837. The second application [Tr. p. 1193] was filed twelve days later—November 6, 1922—and bears serial No. 599,403. The inventions of this second application are the subject of this action.

These two applications disclose and rest upon the same basic inventive thought, namely, that the use of chrome

alloys in the process and containers wherein the petroleum is under cracking condition, substantially eliminates serious hazards to life and property, and greatly improves the quality and quantity of the gasoline produced.

Patent serial No. 1,815,428 was issued upon said application No. 596,837 on July 21, 1931 [Ptfs. Exch. 20, Tr. p. 1175] and later reissued as No. 19,237 [Ptfs. Exh. 21, Tr. p. 1183], and patent serial No. 2,075,164 was issued upon said application No. 599,403 on March 30, 1937 [Ptfs. Exh. 23, Tr. pp. 1193, 174, 176].

The delay in the issuance of said patent upon said application No. 599,403 resulted from a contest which was carried through the various patent agencies and the courts, and eventuated in a decision on December 7, 1936, by the United States Court of Appeal for the District of Columbia, which declared the patentability of said invention. (*Gasoline Products Co. v. Coe, supra.*)

On September 15, 1925, and prior thereto, said Pan American Petroleum Company, a subsidiary of said Pan American Petroleum and Transport Company, was engaged in the business of producing and refining petroleum and petroleum products, and in its operations *it was using* the inventions of each of said groups, including the inventions of said companion applications numbers 596,837 and 599,403, under a license granted by Black to said parent company on October 30, 1924.

Said Pan American Petroleum Company was then using the invention common to these two companion applications in its pilot cracking plant at its refinery at Watson, California [Tr. Vol. I, pp. 282, 283, 284; Vol. II, pp. 641, 643], and was preparing for its extensive use in the new cracking unit which it was planning for the same loca-

tion. It had ordered and received for such use about 24,000 pounds of chrome alloy tubes [Tr. Vol. I, pp. 286, 287].

On August 25, 1925, said Pan American Petroleum Company, in anticipation of a dissolution of its subsidiary relationship to said parent company, desired to continue its use of said inventions in the conduct of its business, and to obtain from Black the right to use any and all of the inventions, processes, and apparatus of which Black was the owner, and any and all improvements thereto, and inventions of a similar nature which Black might thereafter make. In accordance with said desire, said Pan American Petroleum Company, at Los Angeles, California, through its attorney, Olin Wellborn, Jr., wrote to Black at New York asking that he, Black, execute to it a contract of license upon a form of said agreement which said Olin Wellborn had prepared, and which he enclosed with said letter to Black. In this letter [Ptfs. Exh. 3, Tr. pp. 153, 232, 838 and 1062], Mr. Wellborn stated that his client, the Pan American Petroleum Company, thought it would be well to have a separate understanding with Black *"covering the use of your inventions."*

Upon receipt of said letter and enclosure, Black inserted the serial numbers of two applications which had been filed after the grant of said license to the parent company; executed the agreement, and returned the same to Mr. Wellborn. [Ptfs. Exh. 4, Tr. pp. 1063 and 223].

Thereafter, about December of that year [Tr. p. 821, fol. 895], Wellborn suggested certain changes in said agreement and submitted to Black his proposed form thereof, which Black executed and returned to Wellborn [Ptfs. Exh. 5, Tr. pp. 1068, 231 and 838]. This writing

is the document which the trial court has found was executed by the parties in evidence of their agreement [Tr. p. 154].

This writing does not specifically identify the subject matter of the grant. It does not say that the license is limited to the inventions of the patents and applications whose serial numbers are enumerated. The identifying description is phrased in *broad, comprehensive*, and *general* language. The *granting clause* states that Black "hereby grants * * * the right, privilege and license to use * * * any and all of the *above mentioned* inventions, processes, and apparatus, and *any and all improvements thereto*, and *inventions of a similar nature* which may be hereafter made by the licensor" [Tr. p. 1070]. This form of reference immediately provokes an inquiry as to which of Black's inventions are included within the language *"the above mentioned"* inventions, processes and apparatus.

An examination of the writing reveals that *"above"* the granting clause, Black's inventions are *"mentioned,"* and in this order (1) as those which Black owns; (2) as those which are new and useful for the extraction of gasoline from petroleum; (3) as those by means of which an amount of gasoline in addition to the natural gasoline content of the petroleum can be extracted by cracking the oil; (4) as those with respect to which three letters patent have issued and ten applications for patent are pending under serial numbers there enumerated; (5) as those which are of the nature and character of the inventions revealed by the serially enumerated patents and applications, and (6) as those of which certain ones were then in use by the licensee [Tr. Vol. IV, p. 1068, line 31, to p.

1069, line 3; p. 1069, lines 7 to 13; p. 1069, lines 14 to 18; and p. 1070, line 4].

During the eleven-years period which began in 1927 and ended on August 6, 1938 (nearly seventeen months after respondent succeeded to this license), the inventions of this application No. 599,403 were in continuous use at the licensee's cracking plant at Watson, California, successively (1) *by the licensee*—Pan American Petroleum Company; (2) *by its receiver and trustee* in bankruptcy; (3) *by its reorganization trustee under* said 77-B proceedings, and (4) *by this respondent.*

On August 6, 1938 (about seventeen months after respondent succeeded to this license) respondent discontinued the use of the original cracking unit at this refinery, and began to operate a new cracking unit which it had erected at that refinery during the preceding seventeen months. In this new cracking unit *respondent has continuously used, and is now using, the inventions of this application No. 599,403.*

An examination of this writing reveals that of Black's companion applications based upon the same basic inventive conception, said serial No. 596,837 *is included,* and said serial No. 599,403 *is omitted* in the enumeration of the serial numbers of patents, and applications for patent, to which reference is made "*in respect of the nature and character*" of Black's cracking inventions, processes, and apparatus, which are of the subject matter of said license.

The evidence shows, as the trial court has found, that this omission inadvertently occurred in the preparation of the writing in evidence of the original license granted by Black to said parent company in October, 1924, and was unconsciously carried over into this writing by the

use of the serial numbers therein enumerated, and of the applications filed between the dates of the two writings [Tr. p. 159].

Black did not discover the omission of this serial No. 599,403 in the enumeration of serial numbers in said writing of September 15, 1925, or that anyone would claim that under the pattern of this writing the inclusion of all of the serial numbers of Black's patents and applications was necessary to the inclusion of the inventions thereof in the license he had granted, until so informed by respondent during the month of October, 1938, and at all times prior to that discovery Black was unconsciously ignorant of that omission [Tr. p. 158].

In December, 1925, Black sold all of his cracking inventions to the Gasoline Products Company, but reserved his interests under this license [Tr. pp. 159, 160].

For a considerable period prior to March 12, 1937, said Pan American Petroleum Company, and the Richfield Oil Company of California which in July, 1928 had acquired about ninety-eight per cent of the stock of said Pan American Company, were in bankruptcy and receivership in the United States District Court at Los Angeles, and William C. McDuffie was the trustee and receiver therefor [Ex. 48, Tr. p. 156].

As such trustee and receiver, *McDuffie adopted and assumed this contract* of license between Black and said Pan American Petroleum Company [Stip. Ex. No. 11, p. 4, Art. 11, pars. 1 and 2; Tr. pp. 24 and 157].

Subsequent to the adoption of said contract by said trustee and receiver, proceedings were initiated for the reorganization of said corporations as provided in Section 77-B of our National Bankruptcy Act. For said pur-

pose, said McDuffie was appointed *Reorganization Trustee* of said Pan American Petroleum Company, and *as such trustee he adopted and assumed said contract of license* [Stip. Ex. No. 11, p. 4, Art. 11, pars. 1 and 4].

For the purposes of said reorganization plan, the Rio Grande Oil Corporation (an existing corporation) was reorganized; its name was changed to "Richfield Oil Corporation," and it became the "New Company" (the respondent here) under a plan of reorganization which was approved by said United States District Court by its order of confirmation made on December 23, 1936 [Ex. 48, Tr. p. 157].

By this plan and order *there is an express assumption by this respondent* of all of the liabilities and obligations of the Receiver and Trustee of said Pan American Petroleum Company, under this executory contract of license [Tr. p. 157, Ex. 48].

Pursuant to and in accordance with this order, and as of March 12, 1937, this respondent and the Reorganization Committee executed a Contract of Assumption by which *this respondent expressly assumed and agreed to perform this executory contract* [Stip. Ex. 21-A, Art. 3, 1st par. and Trial Court's Findings Tr. p. 157]. This Contract of Assumption provides in Article 5, sub-article (b) that the assumption of liabilities under said Article 3 is made expressly for the benefit of third persons.

This respondent had knowledge [testimony of Adams, Tr. pp. 899-901, incl.; Davis, Tr. pp. 780-786, incl.; Ragland, Tr. pp. 855-860, incl.] *before it succeeded to this license*, of the facts:

(1) that on July 21, 1931 Patent No. 1,815,428 had issued on Black's enumerated application No.

596,837, and that this application and patent revealed Black's Basic Chrome Alloy invention, and specifically covered Black's claim of the adaptation of that invention in a digester, "*preferably tubular in form*," composed of chrome alloy, in cracking petroleum;

(2) that the debtor, and its reorganization trustee, were actually using a *tubular container* composed of chrome alloy, in their petroleum cracking operations at Watson, California; and

(3) that on December 6, 1936, the United States Court of Appeals for the District of Columbia, had declared the patentability of Black's chrome alloy inventions as revealed and claimed in Black's application No. 599,403, *covering this very adaptation* of Black's chrome alloy invention (*a tubular cracking container*) *then in use by the debtor and its reorganization trustee.*

For seventeen months after respondent succeeded to this license, it conducted this business as did the debtor and its trustee theretofore, and *continued the use* that had theretofore been made by the debtor and its trustee, of the inventions of this application No. 599,403, in the debtor's cracking plant at Watson, California. Sixteen months of this period followed the issuance of a patent upon this application and respondent's knowledge thereof.

At the end of that period respondent discontinued the payment of royalty, *but continued its use of the inventions of this application* and patent in its cracking operations. Respondent denied this use in its verified answer [Tr. Vol. 1, par. 15, p. 32], but later conceded the fact in open court, before Judge Holzer, to prevent a pre-trial examination of its plant by Black.

The Contested Issues.

Your petitioner contends and respondent denies:

(1) that upon the proper interpretation of this writing of September 15, 1925, under the California rule (which is the universal rule) the inventions of this application No. 599,403 are included in the grant, because *the parties actually intended* the grant to include all of Black's inventions of the *nature* and *character* of those illustrated by the patents and applications serially enumerated, and (1) this intention may be reasonably deduced from the broad, comprehensive, and general language of this writing, and (2) in any event, it is not repugnant to the language used;

(2) that if an interpretation of the writing *in the light of the actual intention* of the parties may be denied, nevertheless, the writing should be reformed as against this respondent so as to express the actual intention of the parties, because the writing would be so reformed as against the debtor and the debtor's trustee: the respondent stands here in the shoes of the debtor and of the trustee, and holds this executory contract in exactly the same conditions, subject to the same burdens and plights, as did the debtor and the trustee;

(4) that your petitioner's right to reform this writing was not lost by his failure to file a claim for reformation in the debtor's reorganization proceedings, because, under the law, *a claim does not arise* in such proceedings upon an executory contract that has not been rejected, but has been expressly assumed by the reorganization corporation: and

(5) that (if a reformation is required) *your petitioner is not estopped* to reform this writing by his failure to file a claim for reformation in said proceedings, because (1) your petitioner did not have any information until nearly seventeen months after the close of those proceedings, sufficient to arouse any suspicion that the serial number of this application No. 599,403 was omitted from the writing, or that its enumeration under the broad pattern of this writing was necessary for the inclusion of the inventions of this application in the grant of the license; and (2) in the absence of such information, this petitioner was under no legal duty to inquire as to the sufficiency of that writing to express the intention of the parties *as understood and acted upon* by them during the preceding twelve years.

The Judgment Below.

Upon the trial of this cause the Honorable Trial Court received and considered *extrinsic evidences of the actual intention and conduct of the parties,* and found, as matters of fact:

(a) that in the execution of this writing *it was the intention of the parties* to evidence a grant by Black to Pan American Petroleum Company of a non-exclusive license for the use of *all* of Black's inventions useful in the business of the licensee, *including the inventions disclosed in said unenumerated application No 599,403* and all improvements thereto and all

inventions of a similar nature which Black might thereafter make [Tr. pp. 161, 163, 164, 176];

(b) *that it was always the understanding and belief of the parties* to this writing that by their execution thereof they had evidenced their intention to include all of said inventions within the scope of said license;

(c) that during the interval of *nearly twelve years* between the execution of said writing (September 15, 1925) and respondent's succession to the licensee's interest therein (March 12, 1937), and for seventeen months after respondent succeeded to this license (March 1937 to October 1938), *the conduct of all the parties conformed fully to that intention, understanding and belief* [Tr. pp. 159, 164];

(d) that *Black was unconsciously ignorant* of the omission from said writing of the serial number of said application until informed thereof by respondent during the month of October, 1938 [Tr. pp. 159, 180 and 10]; and

(e) that the facts fully justify a reformation of this writing *as between the original parties* thereto, so as to clearly express the actual intention of the parties to include in said writing all of Black's inventions of the class described, including the inventions of said application No. 599,403 [Tr. p. 167, 168, 169, 183, 184].

The trial court held, and the Honorable Ninth Circuit Court of Appeals has affirmed (Hon. Albert Lee Stephens, Judge, dissenting):

(1) that your petitioner's right to reform this writing was barred by his failure to file a claim for its reformation in the licensee's reorganization under Section 77-B of the National Bankruptcy Act;

(2) that respondent succeeded to this unrejected executory contract as an innocent third person for value;

(3) that it is a reasonable deduction from the face of this writing that the parties intended to limit the grant to the inventions of the serially enumerated patents and applications, and that, as a matter of interpretation, this intention must prevail over the actual intention of the parties as found by the trial court, because, under California law, *"the language of the contract must govern* its interpretation;" and

(4) that your petitioner is *estopped* to reform this writing as against respondent, because your petitioner did not file a claim for such reformation in said reorganization proceedings, notwithstanding your petitioner's ignorance during said proceedings and for sixteen months thereafter, of the omission of said serial number 599,403 from said writing, and of the fact that anyone would ever claim that its inclusion was necessary to bring the inventions of that application within the grant of the contract of September 15, 1925.

Questions Stated.

I.

When one of two parties to an executory contract in writing is reorganized in proceedings under Section 77-B of our National Bankruptcy Act, wherein the contract is not rejected but is expressly assumed, is the other party's right to reform that writing barred by the final order of confirmation in event he does not file a claim for reformation in these proceedings?

II.

Does a reorganization corporation in proceedings under Section 77-B of the National Bankruptcy Act take and hold an unrejected executory contract which it has expressly assumed, as an innocent third person for value, or does it stand in the shoes of the debtor and take the contract *cum onere*, in the same plight in which the bankrupt held it?

III.

In the interpretation of a writing under California law, must the actual intentions of the parties, as found by the trial court, be rejected when that intention is not repugnant to the language used, but a different intention may be deduced from the language of the writing?

IV.

Assuming that under the pattern of this writing the enumeration of serial No. 599,403 was required in order to include the inventions of that application in the grant, is Black estopped under California or federal law to seek a reformation of the writing in the hands of respondent, because, before the termination of said 77-B proceedings, he did not discover said omission, or the necessity for the inclusion of said number, and file a claim for the reformation of the writing?

Reasons for Allowance of Writ.

Your petitioner respectfully represents that a writ of certiorari should be allowed for the following reasons:

AS TO QUESTION NO. I.

A.

The Decision of the Ninth Circuit Court Upon This Question Is Directly Opposed to a Decision of the Fourth Circuit Court in Consolidated Gas, etc. Co. v. United Railways, etc., Decided April 6, 1936, and Reported in 85 Fed. (2d) 799 (Certiorari Denied, 300 U. S. 663; 81 L. Ed. 871).

In the case at bar the Ninth Circuit Court has held that Black had an opportunity to assert his right to reform this writing in the licensee's 77-B proceedings, and that having failed to do so, his claim is barred by the order of confirmation in those proceedings.

In the *Consolidated Gas Co.* case, *supra*, the Fourth Circuit Court has held that a claim does not arise under an executory contract within the meaning of Section 77-B of the National Bankruptcy Act unless and until that contract has been rejected.

This holding of the Fourth Circuit Court has not been criticized in any decision within our knowledge. It was affirmed in principle: (1) on April 5, 1937, by the Second Circuit Court, in *In re United Cigar Stores Co. of America*, 89 Fed. (2d) 3, 5, wherein that Court held that "*an executory contract * * * will serve as the basis for a claim if rejected by the trustee in bankruptcy,*" and (2) on April 15, 1940, by the Second Circuit Court, in

Mohonk Realty Corp. v. Wise Shoe Stores, 111 Fed. (2d) 287, 290, wherein that court held that *"a landlord may not be a creditor with a provable claim until his lease is rejected, * * * and at such time he becomes a creditor with a provable claim * * * a landlord is entitled to insist that his lease be rejected or fully assumed under the plan."*

The decision of the Fourth Circuit Court in the *Consolidated Gas Co.* case, *supra,* was expressly approved and followed by the Supreme Court of Arkansas on November 10, 1941, in *Ark. Fuel Oil Co. v. Pace,* 202 Ark. 52, 57, 59.

B.

The Question Presented Here Is an Important Question of Federal Law Which Has Not Been, but Should Be, Settled by This Honorable Court.

The extreme importance of this problem in the administration of the Bankruptcy Act, is obvious, and the necessity for the settlement of such problems by this Honorable Court is a well recognized ground for review. (*Price v. Guerney,* Sup. Ct. Law. Ed., Adv. Opin., Vol. 89, No. 8, pages 524, 526, Oct. Term 1944.)

The principle involved in this question is of very great practical and economic importance. Since the decision in the *Consolidated Gas etc.* case, *supra,* in 1936, and the denial of certiorari by this Honorable Court, it has been standard theory and practice in 77-B proceedings to expedite the consummation of the debtor's reorganization

by avoiding the litigation of claims which might be urged in respect of the scope and meaning of an executory contract which has not been rejected, but which has been adopted by the reorganization trustee and assumed by the reorganization corporation. (Vol. 8, Corp. Jur., Sec. 860, p. 1829; Vol. 2, Gerdes on Corp. Reorg., Sec. 715, p. 1178 and Sec. 954, p. 1548.)

Sound public policy requires that a party to an executory contract that has not been rejected but has been assumed by the reorganization trustee in proceedings under 77-B, shall not be required, in order to avoid the danger of losing his rights, to explore, anticipate, and litigate, in those proceedings every eventuality which might arise, but which has not arisen, and as to which he is unsuspicious and uninformed.

Unless this question is settled by this Honorable Court, the hopeless uncertainty and confusion engendered by these conflicting opinions of our Circuit Courts, will vitally disturb the stability of contractual relations; disrupt the orderly and expeditious administration of our bankruptcy laws; tend to congest the calendars of our inferior tribunals and cast a cloud upon thousands of executory contracts that, *unrejected,* have been assumed by the reorganization corporation upon the theory, as declared by the Fourth and Second Circuit Courts, as aforesaid, that these contracts pass to, and are held by, such reorganization corporations, exactly the same as though held by the debtor.

AS TO QUESTION NO. II.

A.

The Ninth Circuit Court in the Case at Bar, Has Decided an Important Federal Question in a Way Which Conflicts With the Applicable Decisions of This Honorable Court.

The Ninth Circuit Court has held in the case at bar that respondent succeeded to this executory contract as an innocent third party for value, and holds it free of any claim for its reformation.

This holding is directly opposed to the holdings of this Honorable Court in *Zartman v. First National Bank*, 54 L. Ed., pp. 419, 420, 216 U. S. 134; *Hurley v. A. T. & S. F. Ry.*, 213 U. S. 216; *Hewit v. Berlin Mach. Wks.*, 48 L. Ed. 986, 194 U. S. 296, and *York Mfg. Co.* case, 50 L. Ed. 782, 785, 201 U. S. 344, 353.

It will be remembered that in its succession to the bankrupt's estate in this executory contract, respondent was required to and did expressly assume the liabilities and obligations of the receiver and trustee of the debtor under this contract [Tr. p. 157, Exh. 48; Exh. 21-A, Article 3, first par.], and that this contract had been assumed by said trustee [Tr. pp. 24, 157].

In the *Zartman etc.* case, *supra*, this Honorable Court said that "*the trustee claims that he takes the same kind of title as a bona fide purchaser for value; but the rule applicable to this and all similar cases is that the trustee takes the property of the bankrupt, not as an innocent pur-*

chaser, but as the debtor had at the time of the petition, subject to all valid claims, liens and equities."

In the *Hurley etc.* case, *supra*, this Honorable Court held that:

> *"Under the present bankrupt Act, the trustee takes the property of the bankrupt in cases unaffected by fraud in the same plight and condition that the bankrupt himself held it and subject to all the equities impressed upon it in the hands of the bankrupt. * * *."*

In the *Hewit* case, *supra*, this Honorable Court held that:

> *"the bankrupt act does not vest the trustee with any better right or title to the bankrupt's property than belongs to the bankrupt or to his creditors at the time when the trustee's title accrues."*

In the *York Mfg. Co.* case, *supra*, this honorable court held that:

> *"under the present bankruptcy act, the trustee takes the property of the bankrupt, in cases unaffected by fraud, in the same plight and condition that the bankrupt himself held it, and subject to all the equities impressed upon it in the hands of the bankrupt."*

B.

The Decision of the Ninth Circuit Court of Appeals in This Case Upon This Question Is in Conflict Also With Other Applicable Decisions of the United States Circuit Courts of Appeal.

In *Greif Bros. Cooperate Co. v. Mullenix*, 264 Fed. 391, 397, the Eight Circuit Court held that:

> *"when the trustee in bankruptcy by order of the Referee or of the Court, elects to ratify, confirm, and adopt the executory contract of the bankrupt, he thereby assumes the liabilities of the bankrupt thereunder, and takes the contract in the same plight in which the bankrupt held it."*

In *Johnson v. Kiern*, 95 Fed. (2d) 629, 633, the Eighth Circuit Court held that:

> *"an adjudication in bankruptcy absolves from no agreement, terminates no contract, and discharges no liability."*

In *Schultz v. England*, 106 Fed. (2d) 764, 768, the Ninth Circuit held that

> *"it is elementary that the trustee stands in the shoes of the bankrupt * * * and can assert no greater rights against the landlord than could have been asserted by the bankrupt in the absence of bankruptcy proceedings."*

This question presents a very important principle of law. The uniformity and clarity with which it has heretofore been held that one who succeeds to a bankrupt's executory contract does so *cum onere*, and thereafter holds said contract exactly as did the bankrupt, has established a basis for business transactions which will be vitally disrupted and confused by the conflicting decision here of the Ninth Circuit Court.

AS TO QUESTION NO. III.

A.

The Decision of the Ninth Circuit Court Upon This Question of California Law Is Directly Opposed to the Settled Law of That State, as Declared in the Applicable Decisions of Its Appellate Courts.

The Ninth Circuit Court has held, in the case at bar, that under California law, where the language of a writing imports an intention, such language is controlling in the interpretation of the writing, and effect may not be given to the actual intentions of the parties as deduced from extrinsic evidences, notwithstanding that *such actual intention is not repugnant* to the language of the contract, and actually governed the conduct of the parties consistently for nearly twelve years.

The Supreme Court of the State of California, in *Lemm v. Stillwater etc.*, 217 Cal. 481, has declared the law of that state to be that in the *interpretation* of a writing:

> (a) The court will *"look to the circumstances surrounding the parties at the time they contracted * * *, including the object, nature and subject matter of the agreement * * * and the preliminary negotiations between the parties, and thus place itself in the same situation in which the parties found themselves at the time of the contracting";*
>
> (b) *"If the provisions of the contract as a whole are susceptible of an interpretation which will give effect to the mutual lawful intention of the parties as it is thus found to have existed at the time of contracting, the court is bound to give to them that interpretation;* and
>
> (c) *"that this duty remains even though another and different intention is also readable therefrom."*

In *Mitau v. Roddan*, 149 Cal. 1, at p. 14, the Supreme Court of the State of California reversed the trial court and held that:

> *"the practical construction placed upon the contract by the parties themselves * * * from the very beginning, and during the years while the terms of the contract were being harmoniously carried out by the parties * * * renders it immaterial to consider what might be the literal construction of its terms."*

In *Universal Sales Corp. v. Cal. etc. Mfg. Co.*, 20 Cal. (2d) 751, 762, the Supreme Court of California held that:

> *"in its execution every executory contract requires more or less of a practical construction to be given it by the parties, and when this has been given, the law, in any subsequent litigation which involves the construction of the contract, adopts the practical construction of the parties as the true construction, and as the safest rule to be applied in the solution of the difficulty."*

In the same case, at page 761, said court held that:

> *"the reason underlying the rule is that it is the duty of the court to give effect to the intention of the parties where it is not wholly at variance with the correct legal interpretation of the terms of the contract."*

In the very late case of *Johnston v. Landucci*, 21 Cal. (2d) 63, at 69, the Supreme Court of California held that *"a possible and reasonable interpretation * * * considered apart from the evidence" of the practical construction of the contract by the conduct of the parties, "is not inevitable," and must yield to a "more reasonable interpretation in view of the evidence" of the conduct of the parties.*

In *Saunders v. Clark*, 29 Cal. 300, 304, the Court said that:

> "the *real intention of the parties, * * * when accurately ascertained, must always prevail over the literal sense of terms.*"

These applicable decisions of the Supreme Court of California have never been criticised or modified. They have been uniformly approved.

The applicable decisions of the Appellate Courts of California also hold that, in the interpretation of a writing, this recourse to, and use of, extrinsic evidences of actual intention, do not vary the meaning of the writing, or add anything to it. They merely make that meaning plain (*Lewis Pub. Co. v. Henderson*, 103 Cal. App. 425, 428), and that reformation is not required to ascertain the meaning attached to a word or phrase in a contract, *or to identify the property* which is of the subject matter thereof, as these particulars involve the construction or interpretation and not the reformation of the contract. (*House v. McMullen*, 9 Cal. App. 664, 673.)

In California it is settled law, as stated in Restatement of the Law of Contracts, Section 242, that:

> *"even where the writing is not ambiguous on its face, the circumstances under which the parties contract may be looked at * * * to indicate the proper choice of possible meaning; and the common knowledge and understanding of the parties is sometimes such a circumstance."* (*Weinstein v. Moers*, 207 Cal. 534; *Tenant v. Wilde*, 98 Cal. App. 437, 453.)

Other applicable and helpful decisions of the Appellate Courts of California are *Perry v. Gross,* 172 Cal. 468, 469; *Imp. Co. v. Cal. etc. Ltd.,* 29 Cal. App. (2d) 260, 273; *Norton v. Farmers etc.,* 40 Cal. App. (2d) 556, 562; *Body-Steffner Co. v. Flotill Products,* 63 A. C. A. 712, 719; *Palma v. Leslie,* 6 Cal. App. (2d) 702, 709, and *Gilde v. Schuster,* 83 Cal. App. 537.

The majority opinion of the Ninth Circuit Court, in the case at bar, upon this question, stems from the conception that recourse to the actual intention as found by the trial court, is denied by Section 1858 of the California Code of Civ. Proc., and by such cases as *Wright-Callender-Andrews Co. v. Eaton,* 47 Cal. App. 685, 688, and *Palm Springs etc. Co. v. Palm Springs etc. Co.,* 36 Cal. App. (2d) 730. This conception ignores the fact that this section must be construed with Sections 1856 and 1860 of the same code, and Sections 1636, 1638, 1650 and 3500 of the California Civil Code, and that the cases there referred to hold no more than that *an intention* (as shown by the parol evidences), *which cannot be reconciled with the language* of the instrument, must yield to the language used.

The actual intention of the parties as discovered from parol evidences, was rejected in each of the cases cited in the majority opinion in the case at bar, because such actual intention *is not readable from the language of the contract viewed by its four corners.* In illustration of this it will be noted that in the case of *Wright-Callender-Andrews Co. v. Eaton, supra,* cited in the court's opinion here, the

subject matter of the contract as written was *"real property completely furnished,"* and the subject matter sought to be included was an *"automobile."* Since an automobile *was wholly repugnant* to the furnishings of real property it was rejected. In the case of *Palm Springs etc. Co. v. Palm Springs etc. Co., supra*, the subject matter stated was land which the *"vendor then owned,"* and the court rejected a subject matter of land which the *"vendor did not then own,"* because the two *were wholly repugnant* to each other.

Those cases do not apply here, because here *the actual intention*, as found by the trial court, to include within the grant the inventions of Black's application No. 599,403, *is entirely consistent with the language* used in the writing. The grant here is as to all of Black's *"above mentioned inventions, processes and apparatus."* The "above mentioned inventions," *i.e.*, those *mentioned above the grant*, are those inventions of Black's which *were "useful for the extraction of gasoline from petroleum,"* and which were of the *"nature and character"* of the inventions revealed in the enumerated patents and applications.

The inventions of this application No. 599,403 are embraced in this reference because they *are useful* in the extraction of gasoline from petroleum; they were in use by the licensee, and *they are of the nature and character* of the inventions of the enumerated patents and applications. In fact, this application and the patent issued thereon state that the inventions there revealed *are an im-*

provement upon the inventions revealed in the enumerated application No. 596,837 issued as Patent No. 1,815,428 on July 21, 1931.

Your petitioner's position has been approved by three of the five judges who have served in this case. Originally this case was before District Judge Hollzer. He held [Tr. p. 102] that *"hence it becomes clear" that "the parties to the license agreement thought and meant that said contract covered and should cover the process or* processes actually used". This case was then transferred to District Judge Harrison for trial, and upon the trial he stated his concurrence in the views of Judge Hollzer (Tr. p. 203, line 6; p. 4641; p. 1000, line 19;, and p. 1002, line 12]. Later Judge Harrison, under the influence of the cases of *Wright etc. v. Eaton, supra,* and *Palm etc. v. Palm etc., supra,* changed his mind and held that he was bound by the *"literal sense"* of the language used. Heretofore, by applicable authority, we have shown that the *"literal sense"* of the language is not controlling, but must yield to the actual intentions of the parties where such actual intentions are not wholly repugnant to the language of the instrument. Upon the Circuit Court Judge Albert Lee Stephens in the case at bar, has dissented upon this ground, and has held that this writing should be construed *in the light of the actual intention* of the parties as found by the trial court, and an accounting should be ordered. Judge Stephens' long service and commendable record as a trial and appellate judge in the

California courts, before his elevation to the federal bench, strongly commend his conclusions upon this question.

These impressions are of controlling importance (*Lock Joint etc. v. Melber*, 234 Fed. Rep. 319; *Gilde v. Schuster*, 83 Cal. App. 537). In the *Lock Joint etc.* case, *supra*, the Third Circuit Court said that in the presence of such "*opposite views there must be a question with two distinct sides, and the language out of which such a question arises must be ambiguous indeed.*"

This question, and its proper solution, is of very great importance. A holding here in accord with the holdings of the California Appellate Courts in applicable decisions, will end this case, because the other questions presented apply only to the remedy of reformation, and the proper interpretation of this writing renders reformation unnecessary. Upon the other hand, if this decision of the Ninth Circuit Court stands, it will deny to Black his right to the benefit of the law of California wherein that law is controlling, and it will establish a false precedent upon this important question of contract law, which will embarrass federal trial tribunals hereafter until the error is rectified.

This Califonia and federal rule is of general recognition. (See *Restatement of the Law of Contracts*, Vol. 1, Sec. 235, p. 319, sub. D, Com. A; *Williams on Contracts* (Rev. Ed. 1936), Vol. 3, Sec. 607, p. 1740; *Wigmore on Evid.* (3rd Ed.), Vol. 9, p. 227; 22 C. J., Sec. 1685, p. 1269; *Ruling Case Law*, Vol. 6, Sec. 239 p. 849.)

B.

The Decision of the Ninth Circuit Court in the Case at Bar, Upon This Question, Is in Conflict With the Applicable Decisions of This Honorable Court.

In *Merriam v. United States*, 107 U. S. 437, at 441, this court stated the applicable rule as follows:

> *"It is a fundamental rule that in the construction of contracts the courts may look not only to the language employed, but to the subject matter and the surrounding circumstances, and may avail itself of the same light which the parties possessed when the contract was made."*

AS TO QUESTION NO. IV:

A.

This Decision of the Ninth Circuit Court Upon the Principle Involved in This Question, Is in Conflict With the Applicable Decisions of the Appellate Courts of the State of California, and of the United States.

The decision of the Ninth Circuit Court in this case, holds that Black is estopped to seek a reformation of this writing. This holding is unsupportable upon the record here, because it clearly appears therefrom that the indispensible elements of Black's estoppel are wholly lacking.

The estoppel invoked rests upon the unfounded conception that Black was *culpably* negligent (1) in his failure to discover before the close of said reorganization proceedings, that said serial No. 599,403 was not enumerated in said writing, and that its enumeration was necessary (if such it were) if the inventions of that application were to be included in the grant; and (2) in his failure to file a

claim for the reformation of said writing in said proceedings.

The rule in California, as declared by the applicable decisions of its Appellate Courts, is that negligence, in order to bar a reformation, must be so gross as to constitute a *"neglect of legal duty."* (*Los Angeles, etc. v. New Liverpool,* 150 Cal. 21, 27, 28.)

In *Union Ice Co. v. Doyle,* 6 Cal. App. 284, 293, the court stated the rule to be that *"the neglect must amount to the violation of a positive legal duty,"* and that *"It should clearly appear, in order to impute laches to one seeking the relief, that he had knowledge, or failed to obtain knowledge where it was obtainable after notice, or that there should be circumstances which should have induced an inquiry and an effort to obtain knowledge."*

This rule has been uniformly approved by the authors and the courts. Mr. Pomeroy, in his work on Equity Jurisprudence, Sec. 856, said *"The conclusion from the best authorities seems to be that the neglect must amount to the violation of a positive legal duty."* In *Sanders v. Monroe,* 10 Fed. (2d) 997, 999, the court said that *"to justify the withholding of equitable relief because of failure to read an instrument, the negligence must be so gross as to amount to a failure of a positive legal duty."* In *Skelton v. Fed. Ins. Co.,* 15 Fed. (2d) 756, 759, the Eighth Circuit Court said *"Mere negligence, not amounting to a violation of a positive legal duty, does not prevent reformation."* This rule was applied by the Honorable

Ninth Circuit Court in *Shields v. Mongollon, etc. Co.*, 137 Fed. 539, 549. See also *United States v. Work*, 13 F. (2d) 303. See, also, *London etc. Co. v. Dexter, etc.*, 126 Fed. 593, 601; *Gen. Motors Corp. v. Swan, etc.*, 88 F. (2d) 876, 887.

It has been frequently held in California that *"reformation may be decreed at the instance of a party who failed to read an instrument he signed, in order to correct a mistake which a reading of the instrument would have disclosed."* (Restatement of the Law of Contracts, Sec. 508; *Los Angeles & Redondo R. R. Co. v. New Liverpool Salt Co.*, 150 Cal. 21; *Romano v. Seibt*, 95 Cal. App. 586; *Cantlay v. Olds, etc.*, 119 Cal. App. 605); that the failure of a party who reads the writing but fails to perceive the mistake, does not preclude a reformation of the contract at his instance. (*Sullivan v. Moorhead*, 99 Cal. 157); that even though an omission is patent upon the face of an instrument, the mere fact that a party fails to discover it does not charge him with laches (*Danielson v. Neal*, 164 Cal. 748); that the duty of inquiry is exacted only in favor of innocent parties (*Hart v. Walton*, 9 Cal. App. 502); that a failure to discover the mistake until thirteen years after the exchange of deeds does not bar the remedy (*Breen v. Donnelly*, 74 Cal. 301), and that the Statute of Limitations does not begin to run until a discovery of the mistake (Cal. C. C. P., Sec. 338, subd. 4).

Under the rule as stated and applied in the foregoing cases, an estoppel requires the concurrence of a *culpable* negligence on the part of the person to be estopped, and a *permissible* ignorance on the part of the person for whose benefit the estoppel is invoked. *Both of these conditions are absent here.*

BLACK WAS NOT CULPABLY NEGLIGENT.

Black did not know and had no reason to know that anyone would ever claim that any of his cracking inventions was not of the subject matter of this license. Nothing had occurred to arouse even a suspicion that such a claim would ever be made. Black knew that these inventions were in use by the debtor and its trustee. He knew that they knew that the *contract as made* covered these inventions, and that the debtor believed, as he did, that the writing they had signed covered all of Black's cracking inventions. Black knew that this respondent had examined the debtor's cracking plant, and that such an examination would reveal, *as it did*, the use of these inventions. He knew that respondent had caused an examination of the patent situation to be made by its competent patent counsel. He knew that such an examination would reveal, *as it did*, the fact that his chrome alloy inventions were the subject of a patent monopoly under the patent that had issued in 1931, upon his application No. 596,837, and the patent that would issue shortly upon his companion application No. 599,403, under said decision by the Court of Appeals for the District of Columbia. He knew that an inquiry of any of the officers and employees of the debtor and its trustee, and the records of the debtor and its trustee, would disclose the mutual understanding that *all* of Black's cracking inventions were under this license. *Nothing was asked of Black.* In these circumstances Black was *unconsciously ignorant* of any necessity for the reformation of this writing. This constitutes *"mistake"* as defined by section 1577 of the California Civil Code, and is the predicate of a permissible reformation. Black was not guilty of any *culpable* negligence, because the circumstances prescribed in section 19 of the Cal. Civil Code, which invoke a duty to inquire, were not present.

RESPONDENT IS NOT AN INNOCENT THIRD PARTY.

The decision of the Honorable Ninth Circuit Court of Appeals upon this question concludes that respondent is an innocent third person within the meaning of section 3399 of the Cal. Civil Code, but this conclusion rests upon a misconception of controlling facts and law.

Respondent *is not a third person* within the meaning of section 3399 of the Cal. Civil Code. *Respondent is the rehabilitated debtor.* It did not deal in respect of its succession to this contract as an independent person acting at arm's length. Respondent dealt in said matter under the compulsions of the Order of Confirmation and the law applicable to reorganization proceedings under Section 77-B of our National Bankruptcy Act. In these circumstances, as heretofore shown, respondent as a reorganized debtor, succeeded to the position of the trustee *(which was that of the debtor)*, in said proceedings in respect of this contract, and assumed and agreed to perform all obligations of the trustee in respect thereof. It did not purchase said contract in the market place as an independent third person. Each of these statements is confirmed by applicable authority heretofore cited and reviewed.

Respondent is not an innocent person within the meaning of said section. "*Innocence*" as comprehended by said section, means an absence of knowledge or notice, actual or constructive, respecting the phase of the subject matter involved. (Cal. Civ. Code, sec. 19.) Respondent is not free here of knowledge or notice of Black's claims upon which Black's right to reform this contract rests. Respondent stands here in the shoes of the trustee and is therefore charged, as was the trustee, *with all knowledge which the debtor* had in respect of Black's equities.

This is the law. It is affirmed in numerous cases hereinbefore referred to which say that the trustee, in whose shoes respondent stands, stepped into this contract *"subject to all equities between the original parties,"* and *"in exactly the same situation as the bankrupt himself stood prior to the adjudication."* (*Eames v. H. P. Claflin Co.*, 220 Fed. Rep. 190, 191; *Zartman v. First Natl. Bank*, 216 U. S. 134, 54 L. Ed. 418; *Coates v. Smith* (Ore.), 60 Pac. Rep. 517, 521; *Schultz v. England*, 106 Fed. (2d) 764, 768.)

Respondent's succession was not in good faith within the purview of said section of the code. This is a necessary conclusion from the fact that respondent stands here in the shoes of the debtor's trustee and is charged with the *trustee's failure* (if any) *to inquire and ascertain the true nature, character and condition of this contract before exercising his election to assume this contract* under said reorganization proceedings. *It was the duty of the trustee to make such inquiry and to ascertain such matters.* (*Atchison, T. & S. Fe Ry. Co. v. Hurley* (*supra*).) *It is presumed that official duty has been performed.* Significantly, the trustee has not said that he did not inquire, or was in anywise ignorant, as to the actual agreement of the parties.

Indisputably, an inquiry by the trustee of Black, who was then in the employ of the debtor, and of the debtor, and an observation of the debtor's cracking operations which then employed the inventions of this application No. 599,403, would have clearly revealed that Black

and the debtor had agreed and understood that the inventions of this application were of the subject matter of said license, and that the conduct of each always theretofore had comported fully with this understanding, and that the omission of the serial number of said application in the enumeration of serial numbers in the royalty group, if at all necessary or desirable for the proper identification of the specific subject matter of said license as agreed and understood by the parties, *was unintentional* and a *mutual mistake* for which Black had the right of reformation. Respondent standing in the shoes of the trustee, the shoes of the debtor, had constructive knowledge of all these facts.

Respondent did not acquire this contract for value in the sense of said section of the code. Respondent, as a rehabilitated debtor, paid nothing for that which it received. It simply stepped into the shoes of the debtor. That which it did was the same, in so far as Black is concerned, as though the debtor had done it. Black's rights and remedies were not affected. Those who became stockholders in respondent upon the investment of new funds, did so with full knowledge of the law which defined the position of respondent in respect of this contract. The contributions of capital they made to the cause of rehabilitation were subject to the hazards of all equities *known or unknown* in Black's favor in respect of this contract. This is the clear philosophy of the law of corporate reorganization as revealed in the authorities to which reference has been made.

We respectfully submit that upon the grounds stated, this petition should be granted.

Respectfully submitted,

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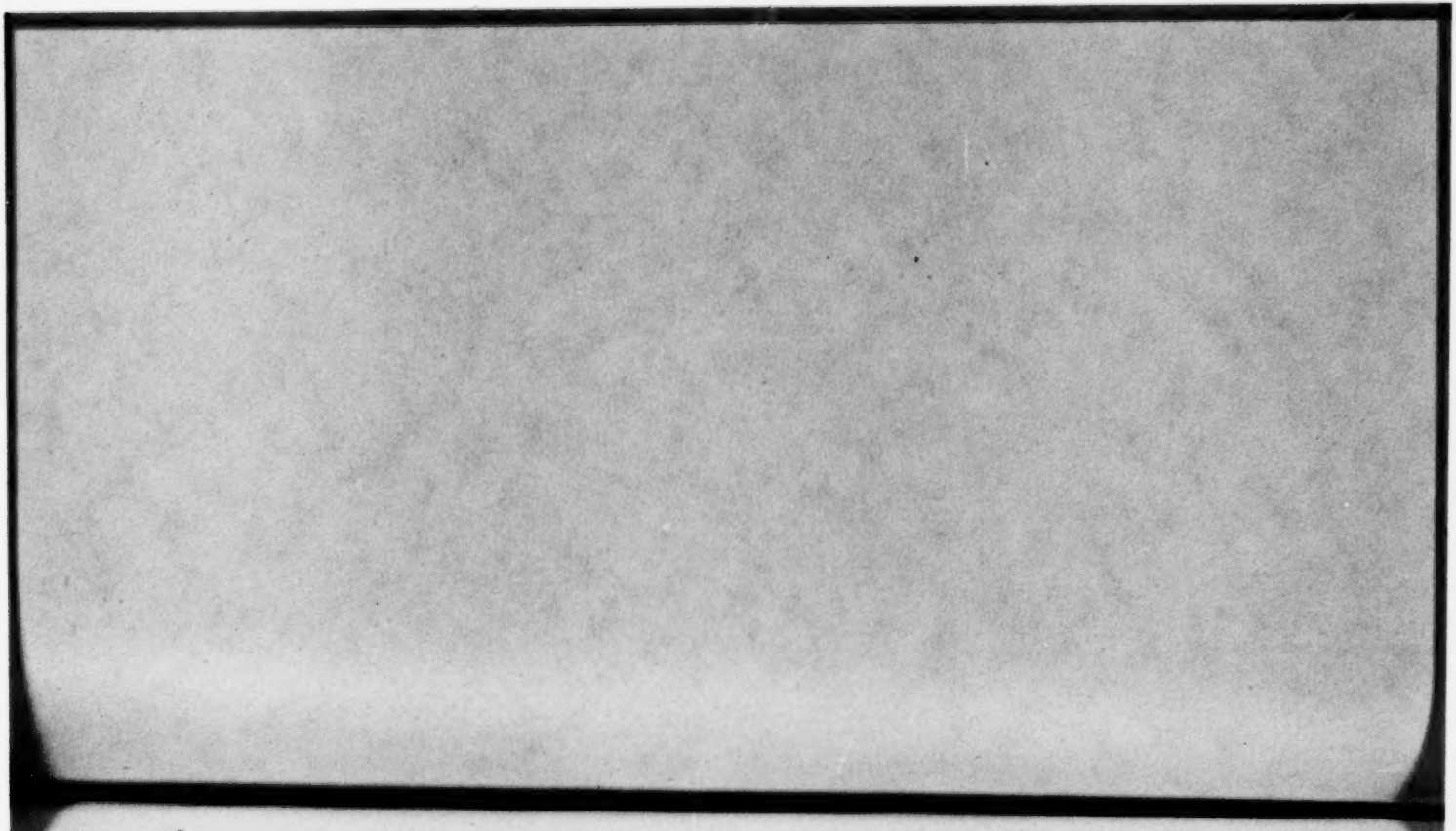

Service of the within and receipt of a copy thereof is hereby admitted this.....day of April, A. D. 1945.

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1944.

No. 1194

JOHN C. BLACK,

Petitioner,

vs.

RICHFIELD OIL CORPORATION,

Respondent.

Respondent's Brief in Opposition to the Petition for Writ of Certiorari.

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1944.

No.....

JOHN C. BLACK,

Petitioner,

vs.

RICHFIELD OIL CORPORATION,

Respondent.

Respondent's Brief in Opposition to the Petition for Writ of Certiorari.

Decisions Below.

This case is before the Court on Petition for a Writ of Certiorari to the United States Circuit Court of Appeals for the Ninth Circuit, to review a decree of the Circuit Court of Appeals [R. 1837], affirming a judgment [R. 184-185], entered by the District Court for the Southern District of California, dismissing the first and second causes of action of the Complaint herein, the third cause of action being dismissed by stipulation without prejudice.

The District Court rendered a written opinion [R. 152-172], which is reported in 41 Fed. Supp. 988. The opinion of the Circuit Court of Appeals, with a dissent-

ing opinion* [R. 1823-1836] is reported in 146 Fed. (2d) 801.

We submit that this case presents no reason or ground for the grant of a Writ of Certiorari such as required by Rule 38, sub-division 5, of this Court.

Each of the questions presented by Petitioner is disposed of on its merits in the opinions of the District Court and the Circuit Court of Appeals. It is not true as Petitioner contends that the decisions below conflict with the decision of any other Circuit Court of Appeals with respect to the effect or interpretation of Section 77B of the National Bankruptcy Act, or are opposed to the law of the State of California.

We re-state the case only insofar as is necessary to correct the inaccuracies or omissions in Petitioner's statement.

Statement of the Case.

This is an action for royalties allegedly due under a License Agreement [R. 1068-1073], which was entered into under date of September 15, 1925, between Petitioner and Pan-American Petroleum Company. Respondent acquired this contract along with the properties of the original licensee, Pan-American Petroleum Company, by transfer on March 12, 1937 [Exhibit 32 to the Stipulation; physical Exhibit 55] pursuant to a plan of reorganization of Pan-American Petroleum Company, under the then Section 77B of the National Bankruptcy

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*The dissenting opinion of Circuit Judge Stephens is limited to the ruling on the first cause of action.

Act, (11 U. S. C. A. 207), which plan was confirmed by the Court below December 23, 1936 [Exhibit 20 to physical Exhibit 55.]

By the action, Petitioner has sought to require Respondent to pay royalties under the License Agreement because chromium alloy (stainless steel) has been used in the cracking tubes installed in a new cracking plant built by Respondent since acquiring the license agreement. Such use of chromium alloy cracking tubes is purported to be covered by Patent No. 2,075,164, granted March 30, 1937, upon an application Serial No. 599,403, filed on March 6, 1922, by Petitioner. Respondent does not deny the use in its new cracking plant of chromium alloy cracking tubes, but it does deny that it is obligated under the license agreement to pay royalties for such use. The inventions for the use of which royalties are payable under the license agreement are expressly limited in the license agreement by reference to the numbers of three issued patents and the serial numbers of ten applications for patent of Petitioner pending at the date of the license agreement.* Application Serial No. 599,403, upon which Patent No. 2,075,164 was granted is not enumerated or referred to in the license agreement.

Three causes of action are separately stated in the complaint [R. 2-25]. By the first cause of action and the first paragraph of the prayer, Petitioner sought to have the language of the license agreement interpreted

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*Royalties are payable only "upon the gasoline extracted by means of the processes for the extraction of synthetic gasoline" [R. 1070-1072], and these are defined [R. 1069, lines 15-18] by reference to the enumerated patents and applications "for full particulars with respect to the nature and character" thereof.

so as to obligate Respondent to pay royalties for the use of Patent No. 2,075,164. By the second cause of action, Petitioner sought reformation of the license agreement so as to physically add thereto Application Serial No. 599,403 upon which Patent No. 2,075,164 issued. By the third cause of action, Petitioner sought to recover the same royalties for the alleged use of other patents.

The case was tried below only upon the first and second causes of action. Subsequent to the decision of the District Court, and before the appeal, the third cause of action was dismissed by Petitioner without prejudice. The first cause of action was dismissed by the District Court on the ground that the language of the license agreement was clear and certain in its identification of the subject matter, and that the case involves not an ambiguity but simply an omission. The Court applied Section 1858 of the California Code of Civil Procedure, which specifies that in the construction of an instrument, the Judge may not "insert what has been omitted." The second cause of action was dismissed by the District Court on the grounds that: (a) Respondent had acquired the license agreement in good faith and for value, and that reformation would operate to the prejudice of rights thus obtained and was prohibited by Section 3399 of the Civil Code of California; (b) that Respondent had assumed the contract as written but not as petitioner seeks to have it re-formed; and (c) that Petitioner's failure to file any claim in the 77B proceeding now forecloses him from asserting a right to re-form the contract.

Argument.

I.

The decision upon the first cause of action presents no reason or ground for the grant of a Writ of Certiorari. Both the District Court [R. 167] and the Circuit Court of Appeals [R. 1830-1831], one Judge dissenting, have found that the writing of the license agreement is clear and certain in its identification of the subject matter. The Circuit Court of Appeals disposed of the arguments advanced by Petitioner in his endeavor to assert the contrary, as follows:

> "The arguments are but variations of a single theme, namely, that the instrument contains language indicative of a purpose to license a class of inventions rather than to limit the grant to those designated by patent and application numbers. We think otherwise."

Such concurrent findings will not be reviewed on *certiorari*. (*General Talking Pictures Corp. v. Western Electric Co.*, 304 U. S. 175, 178; 82 L. Ed. 1273-75.)

The applicability of the parol evidence rule in this case is controlled by the law of the State of California. (*Ruhlin, et al. v. New York Life Ins. Co.*, 304 U. S. 202; *Erie Railroad Co. v. Tompkins*, 304 U. S. 64.)

The Courts below expressly applied the California law. The California decisions cited by the District Court [R. 165-166] and the Circuit Court of Appeals [R. 1832] clearly support the rulings below. The assertion that the California law was not properly applied is not a ground for *certiorari*. (*Ex Parte Woods*, 143 U. S. 202; 36 L. Ed. 125, 126.)

II.

Any one of the three grounds upon which the Courts below dismissed the second cause of action is sufficient to sustain the judgment.

(a) Both the District Court [R. 168-169] and the Circuit Court of Appeals [R. 1834] have ruled that Respondent acquired the License Agreement in issue in good faith and for value*, and have ruled that a reformation of the License Agreement in Respondent's hands is barred by Section 3399 of the Civil Code of California, which provides:

> "When, through fraud or a mutual mistake of the parties, or a mistake of one party, which the other at the time knew or suspected, a written contract does not truly express the intention of the parties, it may be revised, on the application of a party aggrieved, so as to express that intention, so far as it can be done without prejudice to rights acquired by third persons, in good faith and for value."

The decisions of the Appellate Courts in California, applying this Code Section, clearly rule that a contract cannot be reformed against bona fide purchasers for a valuable consideration without notice. (*Sherwood v.*

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*Contrary to Petitioner's argument that Respondent is merely the rehabilitated debtor, the District Court found that Respondent is a newly organized third party. The District Court adopted the following conclusion of law: "(9) Defendant was not a party to the licensing agreement in litigation. It is an innocent third party, and purchased the assets and properties of the Debtor, Richfield Oil Company of California, and its subsidiary, Pan-American Petroleum Company, in good faith and for value within the meaning of Section 3399 of the California Civil Code." [R. 183.]

Robertson, 48 Cal. App. 208, 191 Pac. 972; *West Coast Lumber Co. v. Apfield,* 86 Cal. 335, 24 Pac. 993; *United States v. Payson,* Fed. Cas. 16016 (N. D. Calif.)).

Petitioner's argument that Respondent stands here in the shoes of the debtor's trustee and is charged with any failure of the trustee to inquire is manifestly unsound. The rulings of the Courts below are not based upon any lack of knowledge of the trustee. Both Courts below found that there is nothing in the record to support an inference that Respondent had notice of the asserted undisclosed obligation now sought to be imposed upon it by reformation. [R. 1834.] Respondent cannot be charged with any failure of the trustee. Sub-division (h) of Section 77B of the Bankruptcy Act expressly provides for the discharge of all claims and obligations of the former owner of such property, and for the transfer of such property "free and clear of all claims of the debtor, its stockholders and creditors, except such as may consistently with the provisions of the plan be reserved in the order confirming the plan or directing such transfer and conveyance or retention * * *."

In applying the doctrine of innocent purchaser for the protection of Respondent, the Court below did equity. Petitioner's effort to bring about a reformation of the License Agreement in the hands of Respondent has no appeal to a Court of equity under the circumstances here. The omission of Application Serial No. 599,403 from the License Agreement according to Petitioner's own testi-

mony was entirely due to Petitioner's own fault. [F. F. #5; R. 179.] It is the law of California that a party may not obtain reformation of a contract to correct his own negligent mistake.

California Trust Co. v. Cohn, 214 Cal. 619, 2 Pac. (2d) 297;

Burt v. Los Angeles Olive Growers Assn., 175 Cal. 668, 166 Pac. 993;

Fraters Glass & Paint Co. v. Southwestern Construction Co., 107 Cal. App. 1, 290 Pac. 45;

Taff v. Atlas Assur. Co., 58 Cal. App. (2d) 696, 137 Pac. (2d) 483.

Furthermore, Petitioner was plainly guilty of laches in failing from the writing of the instrument in 1925 until after the transfer to Respondent in 1937, to ascertain the omission of Application Serial No. 599,403, and in not moving to have the License Agreement re-formed. Less than three months after the making of the License Agreement, Petitioner executed instruments agreeing to transfer his patent and patent application to Gasoline Products Company. In these instruments Application Serial No. 599,403 is expressly enumerated. [R. 1485-91.] The Court below found that these recitals were sufficient to put Petitioner on notice that he had failed to include Application Serial No. 599,403 in the License Agreement in issue here. [Finding of Fact No. 7; R. 174.] It is the law of California that laches is a bar to reformation of a written instrument.

Barfield v. Price, 40 Cal. 535;

Bradbury v. Higginson, 167 Cal. 553, 140 Pac. 254;

Garstang v. Skinner, 165 Cal. 721, 134 Pac. 329;

Wills v. Porter, 132 Cal. 516, 64 Pac. 896;

Burkle v. Levy, 70 Cal. 250, 11 Pac. 643;

Miller v. Lantz, 9 Cal. (2d) 544, 71 Pac. (2d) 585;

Goodfellow v. Barritt, 130 Cal. App. 548, 30 Pac. (2d) 740;

Wilson v. Cooper, 126 Cal. App. 607, 15 Pac. (2d) 174.

(b) Both the District Court [R. 170-171] and the Circuit Court of Appeals [R. 1835] have found that Respondent has assumed the License Agreement as written but not as petitioner seeks to have it re-formed. Under the law of California, the assignment of the License Agreement to Respondent does not cast upon Respondent any of the obligations imposed by the License Agreement upon the original licensee unless Respondent has assumed the performance of such obligations.

Lisenby v. Newton, 120 Cal. 57, 52 Pac. 813;

Bryant v. Smith, 57 Cal. App. 214, 206 Pac. 1025;

Armstrong Co. v. The Shell Co. of Calif., 98 Cal. App. 769, 277 Pac. 887;

25 *Cal. Jur.*, 701.

Petitioner's argument that because Respondent assumed the liabilities and obligations of the receiver and trustee under the License Agreement that Petitioner thereby holds the License Agreement exactly as did the bankrupt is manifestly erroneous and ignores entirely the effect of Section 77B of the Bankruptcy Act. The trustee and receiver never assumed the obligation sought to be added to

the License Agreement by reformation. The License Agreement was never specifically affirmed by the receiver or trustee but the receiver and trustee did continue the payment of royalties during the re-organization proceedings. The District Court held that the payment of these royalties constituted an affirmance or adoption of the License Agreement, but only to the extent of the terms of the Licensing Agreement appearing on the face of the contract. [Conclusion No. 5; R. 182.]

To hold that the receiver or trustee because of the payment of royalties was bound to perform an obligation which might have been added to the contract by reformation and of which he had no knowledge would be to deprive the receiver or trustee, as well as the Court, of the right as well as the duty, to disaffirm a burdensome contract in the course of the re-organization proceedings. It is fundamental that one of the first duties of a receiver is to determine which of the contracts of the corporation he will affirm or adopt, and which of the contracts he will disaffirm or reject. If there are any additional obligations of the contract which are not disclosed on the face of the contract, the receiver or trustee, if he has no knowledge of such additional burdens or obligations, cannot be held to have affirmed any such additional burdens or obligations merely by performing the obligations which appeared on the face of the contract. If this were not true, and if mere performance were held to have the effect of affirming additional unknown obligations as well as the known obligations, the receiver or trustee would be deprived of his power and duty to disaffirm and reject a burdensome contract. Furthermore, a premium and advantage would be given to the inactivity of the other party to the contract

in not making known his assertion of such additional obligations to the prejudice of all other creditors of the estate who are required to accept pro rata distribution on their claims against the estate in lieu of performance and satisfaction; and consequently, the entire purpose and effect of the administration of estates in equity receivership and under Section 77B of the Bankruptcy Act would be abrogated.

(c) Both the District Court [R. 169-171] and the Circuit Court of Appeals [R. 1835-1836] have ruled that Petitioner is foreclosed from reformation of the License Agreement because no claim for such reformation was filed in the re-organization proceedings. These rulings are clearly in accord with the wording and intent of Section 77B of the Bankruptcy Act. That statute provides in subdivision (g) that an order of confirmation shall be binding upon "all creditors, secured or unsecured, whether or not affected by the plan, and whether or not their claims shall have been filed, and, if filed, whether or not approved, including creditors who have not, as well as those who have, accepted it." It further provides in subdivision (h) that "the property dealt with by the plan, when transferred and conveyed by the trustee or trustees to the debtor or the other corporation, or corporations, provided for by the plan * * * shall be free and clear of all claims of the debtor, its stock-holders and creditors, except such as may consistently with the provisions of the plan be reserved in the order confirming the plan or directing such transfer and conveyance or retention * * *." The Act defines the term "creditors" in subdivision (b) as including "all holders of claims of whatever character against the debtor or its property, including claims under

executory contracts, whether or not such claims would otherwise constitute provable claims under this Act," and defines the term "claims" as including "debts, securities, other than stock, liens, or other interests of whatever character."

The re-organization proceedings involving Richfield Oil Company of California and its subsidiary, Pan-American Petroleum Company, are set forth in the Stipulation, Exhibit 55. This Stipulation is not reproduced in the printed record, but is a physical Exhibit in this case. The petition for the re-organization of Richfield Oil Company of California and its subsidiary, Pan-American Petroleum Company, under Section 77B of the National Bankruptcy Act, was filed October 8, 1936. On that date an order was entered by the District Court "that all claims and interests of creditors and stockholders" should be filed with the trustee on or before November 7, 1936, and that "any and all such claims or interests not filed or evidenced on or before said date shall be forever barred." [Exhibit 14 to Exhibit 55.] An order confirming the plan of re-organization was made on December 23, 1936, and provided that:

> "The property of the subsidiary * * * when transferred and conveyed by the trustee of the subsidiary to the new company, as hereinafter directed, shall be free and clear of all claims and liens, except such as are reserved in the plan * * *."

and further provided that:

> "The provisions of the plan and of this order shall henceforth be binding upon the debtor, * * * and shall be binding upon all creditors of the subsidiary, secured or unsecured, whether or not affected by the plan, and whether or not their claims have been filed in these proceedings * * *."

The order of confirmation contained an injunction, restraining "all creditors and stockholders of the subsidiary * * * from prosecuting against the new company * * * any suit or proceeding arising out of or based on any obligation or any liability of, or interest in, the * * * subsidiary * * * or in respect of any claim against, or interest in the subsidiary * * *." Following the confirmation of the plan, on June, 1937, a final order and decree was entered by the District Court terminating the bankruptcy proceedings and discharging the trustee. [Exhibit 22 to Exhibit 55.] This final decree reiterated the discharge and injunction.

Petitioner had due notice of these proceedings and he did not file in such proceedings any claim with respect to the License Agreement in issue, and particularly any claim for reformation thereof to add Application Serial No. 599,403. [Paragraph 9 of Exhibit 55.] Petitioner did, however, participate in the reorganization proceedings, and filed a claim covering a payroll deduction, which claim was allowed, and pursuant to which he received a portion of the proceeds under the plan of re-organization.

That a claim for reformation of an executory contract, such as involved here, should be foreclosed if not filed and presented in the re-organization proceedings is apparent upon consideration of the effect upon innocent parties of the failure to so hold. Pursuant to the plan of re-organization, there was transferred to Respondent all of the properties, assets and business of the debtor, Richfield Oil Company of California and its subsidiary, Pan-American

Petroleum Company, as well as the properties, assets and business (with certain exceptions) of a third corporation, Rio Grande Oil Company. In consideration for the assets so transferred, Respondent issued to the trustee of such companies a certificate representing two million shares of the common stock for distribution to the holders of allowed, secured or unsecured, claims in the re-organization proceedings of Richfield Oil Company of California and of Pan-American Petroleum Company. In consideration for the assets so transferred by the Rio Grande Oil Company, Respondent issued to the Rio Grande Oil Company 865,000 shares of its common stock and 500,000 warrants. [Paragraphs 12 and 13, Exhibit 55.] As a part of the plan of re-organization, Respondent obtained new capital in the sum of $20,000,000.00 for use in rehabilitating the properties and carrying on the business so acquired under the re-organization proceedings.

It is entirely clear that the failure of Petitioner to file a claim for reformation of the License Agreement in the re-organization proceedings should foreclose Petitioner from here asserting such a claim against Respondent. As said by the Circuit Court of Appeals:

> "Sub-division (h) of Section 77B provides that when the property dealt with is transferred to a corporation provided for in the plan, it shall be free and clear of all claims of the debtor, its stockholders and creditors, except such as may consistently be reserved in the order of confirmation. It is not contended that the order in terms reserved the right to

reform this contract. Obviously reformation at this juncture would place appellant in a preferred position, prejudicial to the rights not only of other creditors of the old Richfield Company but to the rights of those who supplied the very large amount of working capital requisite to the operations of the new." [R. 1836.]

The rulings of the courts below that Petitioner's claim for reformation was foreclosed by the failure to file any claim for such reformation in the re-organization proceedings is not in conflict with the decisions relied upon by Petitioner. The case of *Consolidated Gas, Electric L. & P. Co. v. United Railways*, 85 Fed. (2d) 799 (C. C. A. 4) merely holds that a claim for damages for rejection of an executory contract does not arise within the meaning of the Bankruptcy Act until the contract has been rejected by the trustee.* Manifestly this must be so because prior to the rejection of the contract no such claim would exist. Such holding is not in point here. As said by the Circuit Court of Appeals below, "The decision is not helpful." [R. 1835.] The case of *In Re United Cigar Stores Co. of America*, 89 Fed. (2d) 3 (C. C. A. 2) merely holds that an unexpired lease will serve as a basis for a claim for damages under Section 77B of the Bankruptcy Act if rejected by the Trustee in Bankruptcy.

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*The court there was not speaking of any other type of claim which might have arisen under the contract as shown by the fact, in the court's opinion, that other claims had been filed and allowed under the same contract.

There is nothing in this case to support Petitioner. The case of *Mohonk Realty Corporation v. Wise Shoe Stores, Inc.*, 111 Fed. (2d) 287 (C. C. A. 2) does not support Petitioner's contention. While holding that a landlord may not be a creditor with a provable claim until his lease is rejected, the case holds that the landlord must appear at the re-organization hearing, or before, and there insist that his lease be either rejected or affirmed. The case of *Arkansas Fuel Oil Co. v. Pace*, 203 Ark. 52, 155 S. W. (2d) 886, while holding that the executory contract remains in full force in a proceeding under Section 77B until it is rejected, and unless rejected passes to the re-organized corporation is not concerned with the failure to assert a claim during the bankruptcy proceedings.

None of these cases is authority for Petitioner's contention that a cause of action existing under a contract at the time of a re-organization proceeding need not be filed in the re-organization proceeding merely because the contract is not rejected. The cause of action for reformation upon which Petitioner depends if it ever existed, existed at all times during the receivership and the bankruptcy proceedings. In ruling that such a claim must have been presented in the re-organization proceedings, the courts below have manifestly correctly applied the plain mandate of Section 77B of the Bankruptcy Act.

Conclusion.

We submit that this case does not present any sufficient reason for the grant of a Writ of Certiorari within the rulings and practice of this court. The case involves merely the application of established rules of law and the Bankruptcy Statute to the particular facts of this case. There is no basis for Petitioner's assertion that the decision is in conflict with the California law, or with any decision involving the Bankruptcy Statute.

Respectfully submitted,

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APPENDIX.

California Code of Civil Procedure, Section 1858:

"Construction of statutes and instruments, general rule.— In the construction of a statute or instrument, the office of the judge is simply to ascertain and declare what is in terms or in substance contained thereon, not to insert what has been omitted, or to omit what has been inserted; and where there are several provisions or particulars, such a construction is, if possible, to be adopted as will give effect to all."

California Civil Code, Section 3399:

"When contract may be revised.— When, through fraud or a mutual mistake of the parties, or a mistake of one party, which the other at the time knew or suspected, a written contract does not truly express the intention of the parties, it may be revised, on the application of a party aggrieved, so as to express that intention, so far as it can be done without prejudice to rights acquired by third persons, in good faith and for value."

Section Seventy-Seven B of the United States Bankruptcy Act:

"(b) A plan of reorganization within the meaning of this section (1) shall include provisions modifying or altering the rights of creditors generally, or of any class of them, secured or unsecured, either through the issuance of new securities of any character or otherwise; (2) may include provisions modifying or altering the rights of stockholders generally, or of any class of them, either through the issuance of new securities of any character or otherwise; (3) shall provide for the payment in cash of

all costs of administration and other allowances made by the court except that compensation or reimbursement provided for in subdivision (c), clause (9), of this section, may be paid in securities provided for in the plan if those entitled thereto will accept such payment and the court finds such compensation reasonable; (4) shall provide in respect of each class of stockholders, of which less than a majority shall accept such plan (unless the judge shall determine either that the debtor is insolvent, or that the interest of such class of stockholders will not be affected adversely by the plan), adequate protection for the realization by them of the value of their equity, if any, in the property of the debtor dealt with by the plan, either, as provided in the plan, (a) by a sale of the property at not less than a fair upset price, or (b) by appraisal and payment in cash of the value either of their stock, or at the objecting stockholders' election, of the securities allotted to such stockholders under the plan, if any shall be so allotted, or (c) by such methods as will do substantial justice to such stockholders under and consistent with the circumstances of the particular case; (5) shall provide in respect of each class of creditors of which less than two thirds in amount shall accept such plan (unless the claims of such class of creditors will not be affected by the plan, or the plan makes provision for the payment of their claims in cash in full), provide adequate protection for the realization by them of the value of their interests, claims, or liens, if the property affected by such interests, claims, or liens is dealt with by the plan, either as provided in the plan (a) by the transfer or sale of such property subject to such interests, claims, or liens, or by the retention of such property by the debtor subject to such interests, claims, or liens, or (b) by a sale free

of such interests, claims, or liens at not less than a fair upset price and the transfer of such interests, claims, or liens to the proceeds of such sale; or (c) by appraisal and payment either in cash of the value either of such interests, claims, or liens, or, at the objection creditors' election, of the securities allotted to such interests, claims, or liens under the plan, if any shall be so allotted; or (d) by such method as will in the opinion of the judge, under and consistent with circumstances of the particular case, equitably and fairly provide such protection; (6) may reject contracts of the debtor which are executory in whole or in part, including unexpired leases except contracts in the public authority; (7) shall, in case any creditor or stockholder or class thereof shall not be affected by the plan, specify the creditor or stockholder or class or classes thereof not affected and contain such provision with respect thereto as may be appropriate, and in case any controversy shall arise as to whether any creditor or stockholder or class thereof shall or shall not be affected, the issue shall be determined by the judge after hearing upon notice to the parties interested; (8) shall specify what claims, if any, are to be paid in cash in full; (9) shall provide adequate means for the execution of the plan, which may include the transfer of all or any part of the property of the debtor to another corporation or to other corporations, or the consolidation of the properties of the debtor with those of another corporation, or the merger or consolidation of the debtor into or with another corporation or corporations, or the retention of the property by the debtor, the distribution of assets among creditors or any class thereof, the satisfaction or modification of liens, indentures, or other similar instruments, the curing or waiver of defaults, extension of maturity

dates of outstanding securities, the change in interest rates and other terms of such securities, the amendment of the charter of the debtor, and the issuance of securities of either the debtor or any such corporation or corporations, for cash, or in exchange for existing securities, or in satisfaction of claims or rights, or for other appropriate purposes; (10) may deal with all or any part of the property of the debtor and may include any other appropriate provisions not inconsistent with this section. No creditor or stockholder shall, for the purposes of this section be deemed to be affected by any plan of reorganization unless the same shall affect his interests materially and adversely. The term 'securities' shall include evidences of indebtedness, either secured or unsecured, stock, certificates of beneficial interest therein, and certificates of beneficial interest in property. The term 'stockholders' shall include the holders of voting trust certificates. The term 'creditors' shall include for all purposes of this section and of the reorganization plan, its acceptance and confirmation, all holders of claims of whatever character against the debtor or its property, including claims under executory contracts, whether or not such claims would otherwise constitute provable claims under this Act. The term 'claims' includes debts, securities, other than stock, liens, or other interests of whatever character. For all purposes of this section unsecured claims which would have been entitled to priority over existing mortgages if a receiver in equity of the property of the debtor had been appointed by a Federal Court on the day of the approval of the petition or answer under this section, shall be entitled to such priority, and the holders of such claims, and of other claims, if any, of equal rank, shall be treated as a separate class of creditors.

In case an executory contract or unexpired lease of real estate shall be rejected pursuant to direction of the judge given in a proceeding instituted under this section, or shall have been rejected by a trustee or receiver in bankruptcy or receiver in equity, in a proceeding pending prior to the institution of a proceeding under this section any person injured by such rejection shall, for all purposes of this section and of the reorganization plan, its acceptance and confirmation, be deemed to be a creditor. The claim of a landlord for injury resulting from the rejection of an unexpired lease of real estate or for damages or indemnity under a covenant contained in such lease shall be treated as a claim ranking on a parity with debts which would be provable under section 63(a) of this Act, but shall be limited to an amount not to exceed the rent, without acceleration, reserved by said lease for the three years next succeeding the date of surrender of the premises to the landlord or the date of reentry of the landlord, whichever first occurs, whether before or after the filing of the petition, plus unpaid rent accrued up to such date of surrender or reentry: Provided, That the court shall scrutinize the circumstances of an assignment of future rent claims and the amount of the consideration paid for such assignment in determining the amount of damages allowed assignee hereunder. In the case of secured claims entitled to the provisions of clause (5) of this subdivision (b), the value of the security shall be determined in the manner provided in section 57, clause (h) of this Act, and if the amount of such value shall be less than the amount of the claim, the excess may be classified as an unsecured claim. The provisions of section 60 of this Act shall apply to claims against the debtor in a proceeding under this section. For

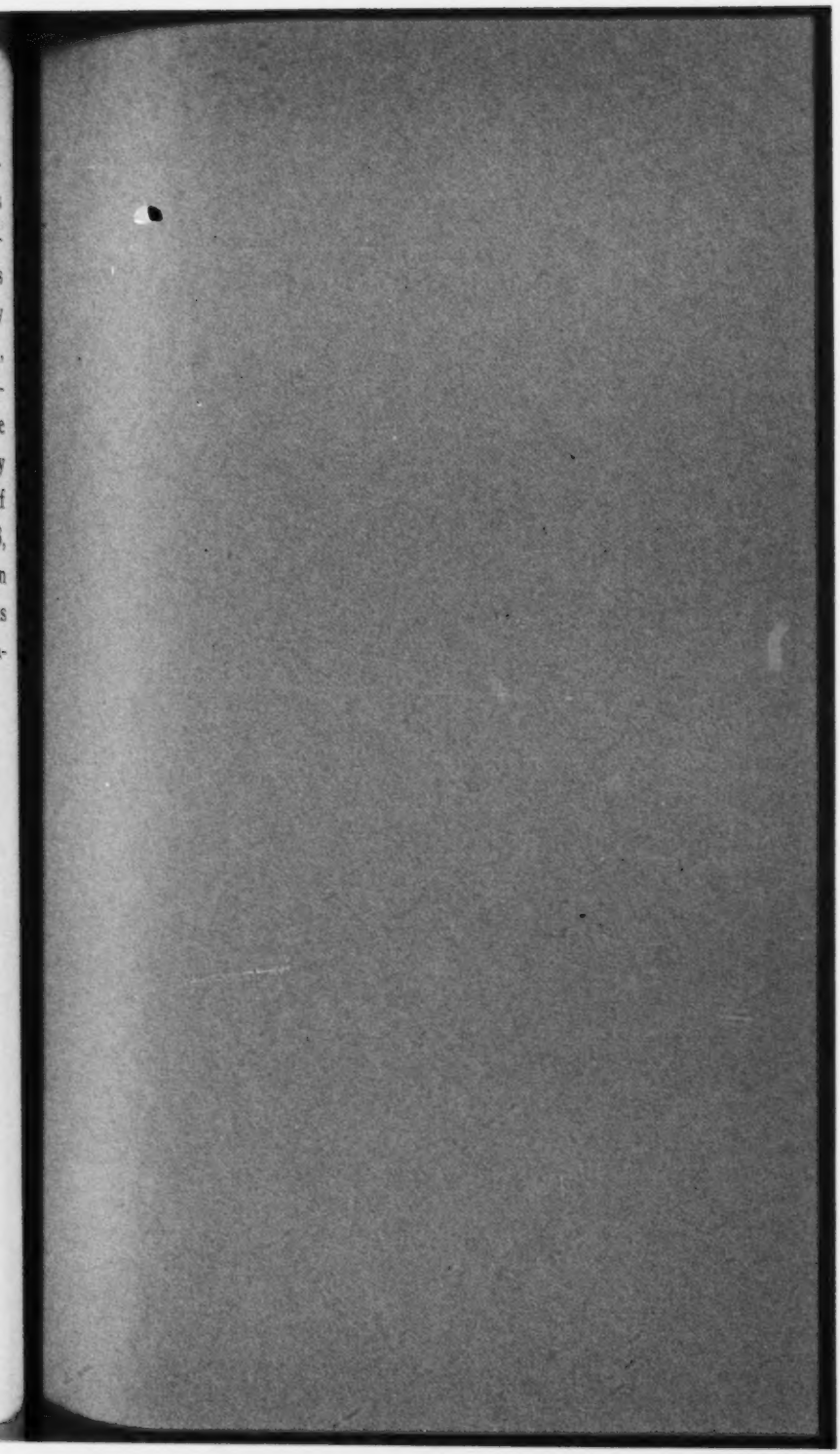
all purposes of this section any creditor may act in person, by an attorney at law, or by a duly authorized agent or committee: Provided, That the judge shall scrutinize and may disregard any limitations or provisions of any depositary agreements, trust indentures, committee or other authorizations affecting any creditor acting under this section and may enforce an accounting thereunder or restrain the exercise of any power which he finds to be unfair or not consistent with public policy and may limit any claims filed by such committee member or agent, to the actual consideration paid therefor. The running of all periods of time prescribed by any other provisions of this Act, and by all statutes of limitations, shall be suspended during the pendency of a proceeding under this section.

"(g) Upon such confirmation the provisions of the plan and of the order of confirmation shall be binding upon (1) the debtor, (2) all stockholders thereof, including those who have not, as well as those who have, accepted it, and (3) all creditors, secured or unsecured, whether or not affected by the plan, and whether or not their claims shall have been filed, and, if filed, whether or not approved, including creditors who have not, as well as those who have, accepted it.

"(h) Upon final confirmation of the plan, the debtor and other corporation or corporations organized or to be organized for the purpose of carrying out the plan, shall have full power and authority to, and shall put into effect and carry out the plan and

the orders of the judge relative thereto, under and subject to the supervision and control of the judge, and the property dealt with by the plan, when transferred and conveyed by the trustee or trustees to the debtor or the other corporation or corporations provided for by the plan, or, if no trustee has been appointed, when retained by the debtor pursuant to the plan or transferred by it to the other corporation or corporations provided for by the plan, shall be free and clear of all claims of the debtor, its stockholders and creditors, except such as may consistently with the provisions of the plan be reserved in the order confirming the plan or directing such transfer and conveyance or retention, and the court may direct the trustee or trustees, or if there be no trustee, the debtor and any mortgagee, the trustee of any obligation of the debtor, and all other proper and necessary parties, to make any such transfer or conveyance, and may direct the debtor to join in any such transfer or conveyance, made by the trustee or trustees. Upon the termination of the proceedings a final decree shall be entered discharging the trustee or trustees, if any, making such provisions as may be equitable, by way of injunction or otherwise, and closing the case. Such final decree shall discharge the debtor from its debts and liabilities, and shall terminate and end all rights and interests of its stockholders, except as provided in the plan or as may be reserved as aforesaid. All securities issued pursuant to any plan of reorganization confirmed by the court in accordance with the

provisions of this section, including, without limiting the generality of the foregoing, any securities issued pursuant to such plan for the purpose of raising money for working capital and other purposes of such plan and securities issued by the debtor or by the trustee or trustees pursuant to subdivision (c), clause (3), of this section, and all certificates of deposit representing securities of or claims against the debtor which it is proposed to deal with under any such plan, shall be exempt from all the provisions of the Securities Act of 1933, approved May 27, 1933, except the provisions of subdivision (2) of section 12, and section 17 thereof, and except the provisions of section 24 thereof as applied to any willful violation of said section 17."



Service of the within and receipt of a copy thereof is hereby admitted this.....day of May, A. D. 1945.

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5-11-45—60

Office - Supreme Court, U. S.
FILED
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CHARLES ELMORE CROPLEY
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IN THE

Supreme Court of the United States

OCTOBER TERM, 1944.

No. 1194.

JOHN C. BLACK,

Petitioner,

vs.

RICHFIELD OIL CORPORATION,

Respondent.

PETITIONER'S REPLY TO RESPONDENT'S BRIEF.

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PETITIONER'S REPLY TO RESPONDENT'S BRIEF.

To the Honorable Chief Justice and Associate Justices of the Supreme Court of the United States:

Your Petitioner respectfully presents this reply to respondent's brief herein:

I.

Respondent Misconceives the Holding in Consolidated Gas & Elec. L. & P. Co. v. United Rys. & Elec. Co., 85 Fed. (2d) 700; (Cert. Denied 300 U. S. 663, 81 L. Ed. 871).

Respondent states (its Br. p. 15, line 13) that the *Consolidated Gas Co.* case, *supra*, "*merely holds that a claim for damages for rejection of an executory contract does not arise within the meaning of the Bankruptcy Act until the contract has been rejected by the trustee,*" and that

"such holding is not in point here." In this respondent is mistaken.

In that case (p. 804) the Court stated the broad question presented as follows:

> *"It is suggested that one who is party with the debtor to an unrejected executory contract is possessed of an interest of a definite character and is therefore a holder of a claim against the debtor; that is, he becomes a creditor clothed with the rights and duties imposed upon creditors by the terms of the act. Hence it is contended that the holder of such a contract must file it as a claim in the proceeding, and see to it that he is specified in the plan as a creditor, not affected thereby as provided in subsection* (b) (7), 11 U. S. C. A., section 207 (b) (7), *or else upon confirmation the plan will be binding upon him under subsection* (g), 11 U. S. C. A., section 207(g), *and, moreover, all of his rights under the contract will be lost* * * *."

It is clear from this statement that the *creditor status* there suggested *is not limited* to a status created by the *rejection* of an executory contract. It is a status created by the fact of an outstanding executory contract and subsists throughout the pendency of those proceedings, and independently of any rejection of the contract. The suggestion is that *"the holder of such a contract must file it as a claim in the proceeding, and see to it that he is specified in the plan as a creditor not affected thereby."* Under the suggestion there made, the rejection of an executory contract simply changes the nature of the claim which, it

was suggested, the holder of that contract was required to file. In other words, the suggestion is that the holder of an *unrejected* executory contract must file his contract as a claim in order to preserve his equities under it, and, conversely, if the contract is *rejected* he must file his claim for damages for such rejection.

In rejecting that contention, the court said (p. 804):

> *"But we think that these conclusions are not sound. Other statutory provisions convince us that a claim under an executory contract does not arise within the meaning of the act until the contract has been rejected."*

In stating its reasons for rejecting those suggestions, the court said (p. 805):

> *"the trustees of the debtor rather than the other party should take the initiative to determine the future status of the contract.*
>
> *"Section 77B, on the other hand, does not contemplate the surrender and sale of the debtor's assets, but rather the transfer of the property, including executory contracts and leasehold estates not affirmatively rejected, to a reorganized body for the continuance of the business. An executory contract, therefore, remains in force in a proceeding under section 77B until it is rejected, and unless rejected, it passes with other property of the debtor to the reorganized corporation."*

The authors of the text in section 860 of the title "*Bankruptcy*" in Vol. 8, C. J. S., at page 1829, under-

stood, as the text clearly reveals, that the Fourth Circuit Court held in the *Consolidated Gas, etc. Co.* case, *supra*, that an executory contract need not be filed by the holder thereof in proceedings under section 77B, and that no claim for the determination of its status in those proceedings need be filed, unless and until the contract is rejected, and that in the absence of such rejection, such a contract passes to the rehabilitated debtor—the reorganized corporation, in the same condition in which the debtor and the trustee held it.

The author of Gerdes on Corporate Reorganizations, Vol. 2, section 715, page 1178, takes the same view of the broad holding of the Fourth Circuit Court in that case. Such was also the view of the Supreme Court of Arkansas in *Ark. Fuel Oil Co. v. Pace,* 202 Ark. 52, 57, 59.

Within our knowledge, it has not been suggested anywhere, at any time, by anyone, other than by respondent in its brief here (p. 15, line 13), that this decision of the Fourth Circuit Court *"merely holds that a claim for damages for rejection of an executory contract does not arise within the meaning of the Bankruptcy Act until the contract has been rejected by the trustee."* The very obviousness of the conclusion that a *"claim for rejection"* does not arise until a *"rejection"* has occurred negatives the idea that such a simple problem was the substance of the extended opinions of the Fourth Circuit Court upon the hearing and a rehearing in that case.

II.

Certiorari Is Proper and Necessary to Correct Error in the Conception and Application of State Law By a Federal Circuit Court When Such Error Is Substantial and the State Law Is Controlling:

Respondent states (its brief page 5, line 26) that error in the application of state law is not a ground for certiorari. It cites *Ex Parte Woods,* 143 U. S. 202; 36 L. Ed., 125, 126, as its authority. The case does not support the statement. It holds only that certiorari will be denied where the claim of error does not present a sufficiently grave question. Respondent's position is expressly negatived by Rule 38, Subd. #5, A. B., 28 U. S. C. A. 354.

The error here in the majority opinion of the Circuit Court, in its conception of the California rule of interpretation, is deserving of very serious consideration, not only because of its great importance in the case at bar, but because of its even greater importance in federal administration under the rule of *Erie Railroad Co. v. Tompkins,* 304 U. S. 64.

The frequency with which our courts are called upon to interpret writings, and the very great importance of the proper exercise of this power in our economic life, render it imperative that, under the rule of *Erie Railroad Co. v. Tompkins, supra,* the laws of a state shall not be interpreted and applied in our federal tribunals in contradiction of their interpretation and application by the appellate courts of that state.

III.

There Is No Serious Denial of Our Claim That in the Case at Bar the Circuit Court Has Misconceived the California Rule of Interpretation.

In our petition, at pages 22 to 28, incl., we affirmed that in the case at bar, there is a clear contradiction between the holding of the *majority* opinion of the Circuit Court and the holdings of the appellate courts of California as to the importance of the *"literal sense"* of language in the interpretation of a writing.

The Circuit Court, by its majority opinion, has held that in the interpretation of a writing under California law, an intention which may be deduced from the *"literal sense"* of the language used, must prevail over the actual intention of the parties as found by the trial court, even though such actual intention is not repugnant to the language used.

The appellate courts of California have held, uniformly, that the real intention of the parties must be given effect where such intention *"is not wholly at variance with the correct legal interpretation of the terms of the contract* (*Universal Sales Corp. v. Cal. etc. Mfg. Co.*, 20 Cal. (2d) 751, 762); *"that this duty remains even though another and different intention is also readable therefrom* (*Lemm v. Stillwater, etc.*, 217 Cal. 481), and that the *practical construction* placed upon the contract by the parties themselves *"renders it immaterial to consider what might be the literal construction of its terms* (*Mitau v. Roddan*, 149 Cal. 1, at page 14).

Respondent has not met this challenge. It has not referred to any of the cases which we cited. It has not directed attention to any opposing authority otherwise

than by saying (its brief, page 5, line 24) that the decisions cited by the District Court and the Circuit Court clearly support the rulings below.

In our petition (pages 25 and 26) we reviewed those decisions and, as we believe, clearly showed that they do not oppose the rule for which we contend. Respondent has not mentioned that review. It has not sought to show by analysis, argument, or authority, anything in any of those decisions which in any way tends to support this erroneous conclusion of the Circuit Court.

We respectfully submit that the persuasively conclusive statements and holdings in the California decisions to which we have referred, fully confirm the *dissenting* conclusions of Circuit Judge Stephens who for many years was a highly esteemed member of the California Appellate Judiciary, and clearly manifest the error we assert and respondent is not able to deny, in the majority opinion, of the Honorable Ninth Circuit Court.

The failure of the author of this contract (the licensee's attorney) to say that this license is limited to those specific embodiments of Black's cracking inventions contained in the enumerated patents and applications, is a clear indication that he did not intend by this writing to deprive his client of the rights to use, under an *implied license* for the use thereof, such other embodiments of the basic invention there revealed, as Black might have conceived theretofore, or might thereafter conceive, and for which he might have sought, or might seek patent protection under applications for patent other than those serially enumerated.

The implied license to which we refer is the license, implied by law from the grant of a license to use a basic invention, to use without any further contract, every

adoption of that invention which the inventor might conceive. The implied license here rests *upon* the *facts* that the basic invention of this Application No. 599,403 is the same basic invention revealed in the *enumerated* Application No. 596,837 and that the claims of this Application No. 599,403 simply represent additional embodiments of that basic invention.

The law is that in such circumstances a license to use the inventions of the later application *is implied* from the grant of a license to use the basic invention common to both applications *unless it appears beyond doubt* that the parties actually intended to limit the express grant to the *specific embodiments* of that basic invention as they then appeared in a pending application, or patent. (*Swan v. Gen. Motors Corp.*, 42 Fed. (2d) 452; *Harvey v. United States*, 196 U. S, 310; *Edison Elec. Co. v. Penisular Light, Power & H. Co.*, 95 Fed. 669, affirmed 101 Fed. 831; *Victory Bottle Capping Co. v. O. and J. Mach. Co.*, 280 Few. 753.)

The failure of this contract to say that this grant is limited to the specific embodiments of Black's inventions contained in said enumerated patents and applications, results, under the above authorities, in the preservation of the licensee's implied license to use the inventions of this application No. 599,403.

It is settled California law, in the interpretation of contracts, that where a certain intention is claimed and *"it would have been a simple matter to have so provided in plain terms,"* but *such intention was not so stated*, then *an uncertainty arises* upon the fact of the instrument, which may be settled by recourse to evidences of actual intention. (*Universal Sales Corp. v. Cal. etc. Mfg. Co.*, 20 Cal. (2d) 751, 770, line 22.) An intention to waive

this implied license is not stated in this writing in plain terms. It is not stated at all. Therefore, under the rule stated, in the presence of respondent's claim that the license is limited to the embodiments of inventions disclosed in the enumerated patents and applications, *which is a denial of the implied license,* the court must ascertain and give effect to the actual intentions of the parties.

IV.

Petitioner Does Not Seek a Review of Any Finding of Fact Which Rests Upon Conflicting Evidences. He Seeks Relief Only From Unsound Conclusions of Law.

Respondent affirms (its brief, page 5, line 16) that this Honorable Court will not review concurrent findings, on certiorari. It cites *Gen. Talking Pictures Corp. v. Western Elec. Co.,* 304 U. S. 175, 178; 82 L. Ed. 1273-75. That case only affirms the rule, applicable generally upon appeals, that a trial court's finding of fact based upon *conflicting* evidences will not be reexamined upon an appeal.

Your petitioner does not seek any such review here. The conclusion of the District Court, affirmed by the majority opinion, and rejected by the dissenting opinion, of the Circuit Court, that the writing involved here is clear and certain in its identification of its subject matter, is not that kind of a finding. It is settled law that the conclusion to be drawn from undisputed evidences presents a question of law, not of fact. (*Brant v. Calif. Dairies,* 4 Cal. (2d) 128, 133; *Wachs v. Wachs,* 11 Cal. (2d) 322, 325.) Within this rule the interpretation of a writing, in the absence of conflicting evidences of actual intent, presents a question of law, not of fact, and therein

an appellate court is not bound by the conclusions of the trial court. (*Bragg v. Martenstein*, 25 Cal. App. 199, 205) but, as a matter of law, it will examine the writing and draw its own conclusion.

The conclusion that this writing is clear, positive, and certain upon its face is unsupportable. Clearly, a writing whose language is receptive to opposing conclusions, one derived *inferentially* from the language alone, and the other derived from that language viewed in the light of the actual intention of the parties and their conduct under it for many years, is not clear, positive, and certain. An intention to be *"clear," "positive,"* and *"certain,"* must be expressed *"without qualification, limitations,* or the like." It must be *"unqualifiedly expressed, admitting of no doubt, condition, qualification, or discretion."* It must be so expressed that it is *"not to be doubted or denied; * * * indubitable; indisputable."* (*Webster's New Intern. Dict.*, p. 413, note 9b; 1679, note 1; p. 361, note 3.)

Since this writing *does not say* that its grant is limited to the inventions of the enumerated patents and applications, but, at length, describes the *nature* and *character* (i.e., the *"kind," "species," "sort,"* and *"quality"*) of Black's cracking inventions, and then expressly extends the grant to all of the *"above mentioned inventions, processes, and apparatus,"* it is a logical and legal absurdity to conclude that the parties by their writing have conclusively evidenced an intention to limit the grant to *less than all* of the *"above mentioned"* inventions. (*Universal Sales Corp. v. Cal. etc. Mfg. Co.*, 20 Cal. (2d) 751.) Clearly, *"the above mentioned inventions"* include those of the class described, whether or not included in the enumerated patents and applications which are referred to (as

the writing says) for particulars in respect of the *"nature"* and *"character"* (*i. e.*, the *"kind," "sort," "species,"* and *"quality"*) of Black's inventions.

In another respect, the composition of this grant clearly indicates that the parties did not intend to limit this grant to the specific inventions of the enumerated patents and applications. This inference rests upon the facts: that (1) *the grant is as to* "any and all of the above mentioned inventions, processes and apparatus and *any and all improvements thereto* and inventions of a similar nature which may be hereafter made by licensor"; and (2) *the inventions of this application* (No. 599,403) *are improvements* of Black's enumerated Patent No. 1,426,813. [Tr. Vol. IV, p. 1195.]

It is a reasonable inference that the words "any and *all improvements thereto,"* as used in this phrase, *comprehend improvements theretofore made,* and are not limited to future improvements by the words *"hereafter made"* which appear at the end of that granting clause. The *absence of punctuation* in said quoted phrase *does not destroy* this inference. It is settled law that *"punctuation, at best a most fallible guide, is always subordinate to the text and is never allowed to control its meaning."* (Cal. Jur., Vol. VI, Sec. 170, p. 276.) Our conclusion is confirmed by the application of the well settled canon of construction that *"a limiting clause is to be restrained to the last antecedent, unless the subject matter requires a different construction."* (*Cushing v. Warwick,* 9 Gray (Mass.) 382; *Puget Sound Elec. Ry v. Benson,* 253 Fed. 710, 711; *County of L. A. v. Graves,* 210 Cal. 21, 26; *Corpus Juris,* Col. 59, p. 985.) In the grant in the case at bar, the limiting phrase *"which may be hereafter made"* is preceded by two antecedents. These, and

their position in that sentence, are *"all improvements thereto"* and *"inventions of a similar nature."*

Under this rule of antecedents, therefore, the limiting phrase *"which may be hereafter made"* is restrained to the immediately preceding antecedent *"inventions of a similar nature"* and does not extend to the *earlier* antecedent *"all improvements thereto"* unless it may be said that the subject matter requires a different construction. Here the subject matter does not require a different construction. It definitely approves that construction as herein shown. Thus considered the inventions of this unenumerated application and patent *are* of the subject matter of the grant *because,* definitely, *they are improvements* upon the invention of the *enumerated* Patent No. 1,426,813. It is so stated on the face of the patent issued on this application No. 599,403, and *they were made prior* to the execution of this contract.

V.

Respondent Is Not a Mere Assignee Who Holds His Estate Free of the Burdens Incident to an Assumption. Respondent Expressly Assumed This Contract and Holds Its Estate Cum Onere, as Did the Debtor.

Respondent's statement and citation of authority at page 9, lines 14 to 24, of its brief, to the effect that an assignment of a contract does not cast upon the assignee any of the obligations imposed by the contract, unless the assignee assumes performance, must not be permitted to confuse respondent's status here.

Respondent succeeded to this contract by an agreement, and an order of the Court, whereby it *expressly assumed* and *agreed to perform* all of the obligations of this con-

tract. By this conduct a "*privity of contract*" was created (*Words and Phrases*, Vol. 33, page 810), and respondent holds this contract in the same condition as though it were an original party to it. The rule is stated by the Supreme Court of California in *Drips v. Moore*, 179 Cal. 249, 252, as follows:

> "Moore, having by assignment acquired the contract and claiming the benefits thereof, *was subject to its burdens as fully and to the same extent as though he was the original party to it.*"

VI.

The Contract Which Respondent Assumed Is the Contract as it Would Have Been Interpreted or Reformed in the Hands of the Debtor.

Respondent argues (its brief, pages 9 and 10) that the contract it assumed is limited to the terms of the agreement as they then appeared upon the face of the writing. Respondent does not cite any authority to sustain its position, and it does not make any mention of the several decisions of this honorable court and of several of the circuit courts, presented in our petition (pages 19 to 21, incl.) which clearly and conclusively refute respondent's contention.

It is settled law that the constitutional limits within which an executory contract may be dealt with in bankruptcy proceedings permit only of an affirmance or rejection. When affirmed, it is affirmed *in toto*. When rejected, it is rejected *in toto*. (*Eames v. H. P. Chaflin Co.*, 220 Fed. Rep. pp. 190-191; *Atchison, T. & S. Fe Ry. Co. v. Hurley*, 153 Fed. Rep. 503, 510; *Gerdes on Corp. Reorgan.*, last para. of Sec. 714, p. 1178.) In the *Eames* case, *supra*, the Court said: "If they rejected it, it remained an asset of the corporation; if they accepted it, *they took it cum onere*." In the *Atchison* case, *supra*, at page

510, the Court said: "*If they elect to assume such a contract, they are required to take it cum onere, as the bankrupt enjoyed it, subject to all its provisions and conditions, 'in the same plight and conditions that the bankrupt held it.'* * * *" Any valid modification of a written contract which may have been made by the bankrupt before adjudication, whether oral or in writing, and *whether known or unknown* to the trustees, are binding upon them if they elect to assume and perform the contract. *They take it subject to all equities between the original parties.* * * * *The duty rests upon the trustees to make inquiry and ascertain the true nature, character, and conditions of the contract before exercising their election.* When the election is made to assume it, where no fraud has been practiced upon them, *they stand in exactly the same situation as the bankrupt himself stood* prior to the adjudication."

The honorable Ninth Circuit Court, by its majority opinion in the case at bar, has approved respondent's contention, and in so doing, it, likewise, has completely ignored those applicable and controlling authorities, and has not referred to any authority to support that position.

We submit that this question is not one of first impression, which may be thus resolved by the simple expedient of original decision. The question is governed by the doctrine of *Stare Decisis*. The clarity and conclusiveness with which it has been held, uniformly heretofore, that one who thus assumes and agrees to perform an executory contract, thereafter holds that contract in exactly the same condition as did the original party, necessarily precludes any authoritative repudiation of that principle by a court of inferior jurisdiction. The repudiation declared by the decision here criticised furnishes a compelling reason for the review of this case by this honorable Court.

VII.

The Doctrine That Respondent Stands in the Shoes of the Debtor and Holds This Contract Subject to All Equities, Precisely as Did the Bankrupt, Does Not Rest Upon Respondent's Knowledge of Those Equities.

Respondent argues (its brief, p. 7), *without any citation of authority*, that it is not bound if the contract is interpreted or reformed to include the inventions of this application No. 599,403, to pay any royalty for the use of these inventions, because it had no knowledge or notice of such inclusion when it assumed this contract. The Ninth Circuit Court has approved this contention.

The position is patently unsound. It is opposed to every statement of the applicable rule which we have found in text and case. Indisputably, the obligations and liabilities which stem from the assumption does not rest on notice of the equities to which the writing is subject. The rule is, as stated by the Eighth Circuit Court in *Atchison, T. & S. Fe Ry. Co., v. Hurley*, 153 Fed. 503, 510, that it is the duty of a trustee in bankruptcy *"to make inquiry and ascertain the true nature, character, and conditions of the contract"* before assuming it, and that when the contract is assumed, it is held subject to all valid equities *"whether known or unknown"* to the trustee. This rule was also declared by this honorable Court in *Thompson v. Fairbanks*, 196 U. S. 516, 49 L. Ed. 577.

Respondent, under its contract of assumption and the Order of Confirmation, expressly assumed the burdens of the trustee under this contract. It stepped into the shoes of the trustee. It is bound, therefore, as was the trustee, by all equities, whether known or unknown.

VIII.

Respondent Is Not an Innocent Purchaser:

Respondent, the reorganization corporation, is not an innocent person. It is simply a reorganized debtor which is composed of the bondholders, other creditors, and stockholders, of the debtor. (*Pickering Lumber Corp. v. Whiteside*, 49 Cal. App. (2d) pp. 200, 210, 211, 213.) It received this contract under a plan whereby the properties of the debtor "were committed to the custody of a court until the time should arrive *when they could be returned to the rehabilitated debtor*, or if that should be impossible, divided among creditors." (*Duparque, etc. v. Evans*, 297 U. S. 216, 80 L. Ed. 591, 593.) In the case at bar, this contract was *"returned to the rehabilitated debtor*—respondent. *It stands in the shoes* of the debtor and it succeeded to this position *cum onere*. The "knowledge of the debtor" is the *"knowledge"* of respondent. The *"plights and infirmities"* of the debtor are the *"plights and infirmities"* of the respondent. It is charged with *knowledge of the law*, and *the law is* that *in the absence of its rejection*, an executory contract passes to the rehabilitated debtor, the reorganization corporation, *"not as an innocent purchaser*, but *as the debtor had it at the time of the petition, subject to all valid claims, liens, and equities."* (*Zartman v. First Nat. Bk.*, 54 L. Ed. pp. 419, 420; *National Bank etc. v. Williams*, 31 Cal. App. 705, 707.)

Those who invested money in respondent are not innocent parties. They purchased with their eyes open, with full knowledge of the law, and uninfluenced by any fraud or misrepresentation. They *could not* and *did not* acquire any rights superior to that of the corporation in which

they invested. They could have inquired of Black to ascertain what, if any, outstanding equities there were in his favor. *This they did not do.* They chose to invest blindly in a corporation *which stood in the shoes* of the debtor. Their disadvantage, if any, is the result of their own negligence. (*Sherwood v. Robertson,* 48 Cal. App. 208, 211.) It is not in anywise the fault of Black, this petitioner. He had no suspicion of the challenge of this suit. Everyone's conduct comported fully, and always had, with the understanding that the inventions of this license included the inventions of this Application No. 599,403. No one challenged this until sixteen months after the conclusion of these reorganization proceedings. In these circumstances, Black was without fault, and these investors are not innocent. (*Amer. B. M. Co. v. Ind. Ins. Co.,* 214 Cal. 608, 614.) To conclude otherwise would be to say that a corporation may avoid its clear liability for the reformation of an executory contract it has acquired and assumed, by the simple expedient of selling some of its capital shares. Such is not the law.

Independently of the foregoing, respondent had such actual knowledge of facts (our Petition p. 9) as charged it with a duty to inquire, and, hence, with constructive knowledge of the facts such an inquiry would have adduced. Section 19 of the Civil Code of California provides that *"every person who has actual notice of circumstances sufficient to put a prudent man upon inquiry as to a particular fact, has constructive notice of the fact itself in all cases in which, by prosecuting such inquiry, he might have learned such fact."* The interpretation and application of this section to the practice of men in the market place is declared in many cases. The cases of

Barthelmess v. Cavalier, reported in 2 Cal. App. (2d) at p. 477, and *Olson v. Cornwell*, 134 Cal. App. 419, are in point and controlling here. In the *Olson* case, *supra*, at page 428, the court said:

> "* * * Whenever a party has information or knowledge of certain extraneous facts which of themselves do not amount to or tend to show actual notice, but *which are sufficient to put a reasonable man upon inquiry* respecting a conflicting interest, claim or right, and the circumstances are such that the inquiry, if made and followed up with reasonable care and diligence, would lead to the discovery of the truth or to a knowledge of the interest, claim or right which really exists, *then the party is absolutely charged with constructive notice of such claim or right.*"

The facts of which respondent had notice (*supra*) *prior* to its consummation of the plan of reorganization under Section 77-B, were sufficient under the foregoing authorities to charge any prudent person *with a duty to inquire as to what right the bankrupt, and its trustee,* had to use these chrome alloy inventions in their Watson cracking plant, in view of the patent that had issued in 1931 upon Black's Application No. 596,837, and the decision in December, 1936, which declared the patentability of Black's invention revealed in his companion application No. 599,403. In these circumstances respondent is not an innocent person.

IX.

The Order of Confirmation Does Not in Law or in Fact Foreclose the Reformation of This Writing in the Hands of Respondent:

Respondent urges, and the Ninth Circuit Court has affirmed, that the Order of Confirmation in the licensee's reorganization proceedings bars a reformation of this writing to conform to the actual intentions, understandings, and conduct of the parties, as found by the trial court. We have heretofore shown by applicable authority which respondent does not mention, that such a bar does not arise as a matter of law. In these circumstances any statement, of a bar, if such there were, in this order, would be legally ineffectual.

But the Order of Confirmation does not, either expressly or impliedly, evidence such a bar. A careful examination of the numerous orders, petitions and notices in those proceedings, clearly demonstrates that *the Court did not make any order* which, in terms, or in spirit, precludes the prosecution of this suit for an interpretation, or modification, of this contract.

Upon the contrary, the injunction contained in the order confirming the plan of reorganization, is *expressly limited* to *"any liability on or in respect of any matter adjudicated by this order."* [Stip., Exh. 22, pp. 2 and 3.] *The matter of the interpretation, or reformation, of this contract was* NOT *"adjudicated by this order."*

These matters of interpretation and modification were not even raised in said proceedings. In fact *they could not have been raised* in said proceedings, or otherwise, *in the absence of an actual controversy* respecting the

proper interpretation of this contract. (*Borchard on Declaratory Judgments*, p. 36, lines 25 to 34; *Gabriel v. Bd. of Regents* (Colo.), 267 Pac. Rep. 407, 408.)

Such a controversy was not foreshadowed, and did not arise, until more than one year after respondent had expressly assumed this contract. Throughout the entire period of the receivership and trusteeship preceding the express assumption of this contract by respondent, the receiver and trustee fully performed this contract. There was no controversy until more than eighteen months after respondent succeeded to the estate of the licensee under this license. Throughout the period of said bankruptcy and reorganization proceedings, everyone assumed that the inventions of this application were of the subject matter of this grant. If this respondent assumed to the contrary (which it does not say) it carefully avoided even an appearance of raising that question, notwithstanding its continuing use, and its knowledge of the bankrupt's prior use, of those inventions, until eighteen months after the close of the bankruptcy proceedings.

It is clear, therefore, that the Order of Confirmation *could not*, and *did not*, preclude any right of reformation incident to this *unrejected* executory contract. This order wherein it says (App. Br. p. 52, line 1) that "the property dealt with * * * when transferred to the debtor or the other corporation * * * provided for by the plan,* * * shall be free and clear of all claims of the debtor, its stockholders and creditors," *also says "except such as may consistently with the provisions of the plan be reserved * * *."*

There is nothing inconsistent with the *"plan"* in the assumption of an executory contract by the reorganized

debtor subject to all equities including the preservation of the *right of the other party thereto to reform* the contract if, as, and when, the need arises and is known. The consistency of such preservation is implicit in the fact that the reorganization corporation, which is nothing more or less than the *rehabilitated* debtor, in its succession to this contract *stands in the shoes of the debtor*, and holds this contract "in the same plight and condition that the bankrupt himself held it, and subject to all the equities impressed upon it in the hands of the bankrupt." (*Amer. Service Co. v. Henderson*, 120 Fed. (2d) 525, 530), and other cases heretofore cited.

X.

There Is No Element of Laches in Petitioner's Conduct:

Respondent urges (its brief, page 8, line 13) that your petitioner was guilty of laches in his failure to discover the omission of the serial number 599,403, and the necessity for its inclusion, if such there were, in said license contract. It bases this claim upon the fact that about three months after this license was granted, Black sold his inventions, subject to this license, to the Gasoline Products Company (but reserved his rights under this license), and that in the transfer papers this serial number was enumerated.

Respondent argues that because that number was included in those transfer papers, your petitioner, for some unstated reason, was put on notice that perhaps this number was not included in the numbers enumerated in this license contract. We are unable to see any such connection between those incidents which in any way tends to

support that conclusion. The findings of fact by the trial court deny any such connection wherein the court found [Tr. p. 169, lines 6 to 12, incl.; p. 176, lines 5 to 8, and Finding 15, p. 181] that the facts fully justified a reformation of this writing if it could be done without prejudice to rights acquired by innocent third persons.

There was nothing in these circumstances to arouse a suspicion that this number was omitted in the license writing, or that the pattern of that writing required its inclusion if these inventions were to be included in the license. In these circumstances your petitioner was under no legal duty to inquire, and his failure to inquire was not laches. (*Tarke v. Bingham*, 123 Cal. 163, 166.)

XI.

The Equities of This Case Are Clearly With This Petitioner.

Respondent states (its Br. p. 7, line 22) that the equities of this case are with it. If the fact is of any importance, it is obvious that the equities strongly favor your petitioner and disfavor respondent.

Any understanding comparison of that which Black *gave* and that which Black *seeks*, and of the positions of the parties here, must inevitably confirm the unimpeachable justice of his claim.

THAT WHICH BLACK GAVE:

Up to the time this contract was made Black had conceived more than 140 inventions that were useful in cracking petroleum. These included his important discovery that chrome alloy was resistant to the influence of sulphur in petroleum under cracking conditions, and that

its use in a cracking container would substantially eliminate the hazards to life and property then incident to cracking operations, and would permit the use of higher temperatures and pressures, with a substantial improvement in the quantity and quality of the gasoline produced. This discovery was of such fundamental importance that its use has become standard practice in the petroleum cracking industry under licenses granted under Black's patents. It is one of the most important contributions to the art of producing high octane gasoline for the armed forces.

In addition to these, Black was the owner of more than 75 inventions which he had conceived and which were useful for purposes other than cracking in a refinery operation. These non-cracking inventions ranged the whole field of refining operations, including the distillation of oil, the production and refining of lubricating oil, the refining of gasoline, and the production of asphalt. They are now standard practice in refining operations.

Under the contract as made, *Black gave* the right to use *all of his cracking inventions,* together with any similar inventions which he might thereafter conceive, upon the payment of a royalty which was *less than one-fourth* the rate at which royalties were then currently paid in the industry. He also gave the right to use *royalty free,* all of his non-cracking inventions and any similar inventions which he might thereafter conceive.

Under this contract, the licensee, in its uncontrolled discretion, may relieve itself, periodically or permanently, from any further liability for the payment of royalty upon any of these cracking inventions, *simply by the discontinuance of its use* of such invention. The use by the

licensee, *royalty free*, of Black's multiple non-cracking inventions is not impaired by its discontinuance of its use of Black's cracking inventions.

Between the making of this contract and the trial of this cause *Black conceived* about 175 additional cracking inventions and about 39 non-cracking inventions, each of which automatically became a part of the subject matter of this license without any increase in the licensee's royalty duty.

Under this contract, *Black revealed* completely and continuously to the licensee the products of his fertile inventive mind, and cooperated fully in the licensee's reduction of these inventions to practice and in the procurement of patent protection thereon.

THAT WHICH BLACK SEEKS:

For that which he gave, Black seeks to recover *only the royalty which the licensee agreed to pay*, and which is unpaid for the period of this respondent's operations since August 19, 1938. Significantly, this royalty is computable at a rate which is substantially less than the rate currently paid in the industry.

THE POSITIONS OF THE PARTIES HERE:

Black seeks to recover upon the contract *upon which the minds of the parties actually met*, as found by the trial court.

The contract as made, was made freely, fairly, with full knowledge, and upon the solicitation of the licensee. The writing which was executed in evidence of this grant, was prepared by the licensee's attorney. Black was not represented by counsel. This is the contract which *the parties*

always understood and believed they had not imperfectly evidenced by their writing of September 15, 1925. *It is the contract to which the parties conformed their conduct consistently through the twelve years which intervened between its making and the advent of this respondent.* It is the contract to which the conduct of this respondent fully conformed during the sixteen months which followed its succession to, and assumption of, this contract. It is the contract because of which the licensee during the long period of its use of the inventions of this Application No. 599,403 *enjoyed an immunity from the common law liability for the use* of an unpatented invention. (Civ. Code, Sec. 980; *Hollywood Motion Picture Equip. Co. v. Furer*, 16 Cal. (2d) 180, 184, 189.) It is a contract *whose subject matter is entirely consistent with the language* of the writing of September 15, 1925.

Respondent seeks to avoid its liability upon the plea that the parties *imperfectly* reduced their actual agreement to writing and that it should not be bound by the actual agreement. This plea ignores the facts of its continuing use of these inventions, and that, under settled law, *it stands here in the shoes of the orginal licensee* and holds this contract *in exactly the same condition* as did the bankrupt (*Zartman v. First Nat. Bk.*, 54 L. Ed. 419, 420; *Greif Bus. etc. v. Mullenix*, 264 Fed. 391, 397; *Hurley v. A. T. S. F. Ry.*, 213 U. S. 126; *Eames v. H. P. Claflin Co.*, 220 Fed. 190, 191; *Schultz v. England*, 106 Fed. (2d) 764, 768; *Gerdes on Corp. Reorg.*, Sec. 714, page 1178.)

Respondent seeks to avoid its liability upon the ground that Black failed to file a claim in the licensee's reorganization proceedings, notwithstanding (a) that throughout the period of those proceedings the law was, as declared

by the Fourth Circuit Court in the *Consolidated Gas Co.* case, *supra* (Cert. denied), that a claim does not arise upon an unrejected executory contract, and (b) that *Black had no knowledge* that it would ever become desirable to reform this writing to more clearly express the actual intentions of the parties, and to negative the specious plea conceived by this respondent sixteen months after the close of those proceedings and belied by the conduct of all the parties, including this respondent, during the preceding twelve years.

Clearly, therefore, in legal contemplation and in good morals, *Black seeks no more* than that which this respondent by its assumption of this contract has agreed to pay; while by a plea denied by all applicable authority, respondent seeks to evade the burdens of a contract which it has assumed, while it continues to enjoy the benefits of that contract.

We respectfully submit that the pending petition should be granted.

JOHN W. PRESTON,
OLIVER O. CLARK,
IRVING M. WALKER,
Attorneys for Petitioner.

Service of the within and receipt of a copy thereof is hereby admitted this.....day of May, A. D. 1945.

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5-18-45—55